AN EXAMINATION OF THE FEDERAL HOUSING FINANCE AGENCY'S REAL ESTATE OWNED (REO) PILOT PROGRAM

FIELD HEARING

BEFORE THE

SUBCOMMITTEE ON CAPITAL MARKETS AND GOVERNMENT SPONSORED ENTERPRISES

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AN EXAMINATION OF THE FEDERAL HOUSING FINANCE AGENCY'S REAL ESTATE OWNED (REO) PILOT PROGRAM

Monday, May 7, 2012

U.S. House of Representatives,
Subcommittee on Capital Markets and
Government Sponsored Enterprises,
Committee on Financial Services,
Washington, D.C.

The subcommittee met, pursuant to notice, at 8:38 a.m., in room 2525 of the Everett M. Dirksen U.S. Courthouse, 219 South Dearborn Street, Chicago, Illinois, Hon. Scott Garrett [chairman of the subcommittee] presiding.

Members present: Representatives Garrett and Schweikert.

Also present: Representatives Huizenga and Schilling.

Chairman Garrett. Good morning, and welcome. Today's field hearing of the Subcommittee on Capital Markets and Government Sponsored Enterprises, on the examination of the Federal Housing Finance Agency's Real Estate Owned (REO) Pilot Program, is called to order. I welcome my colleagues and members of the first panel, and management members of the subsequent panels, as well.

I will begin by recognizing myself for an opening statement. Welcome, everyone. I appreciate the fact that a number of you, myself included, had a difficult time getting here to Chicago on this beautiful day. I guess this is a beautiful day for Chicago. I appreciate that. That's just what I hear about the weather in Chicago.

Mr. Huizenga. It's not raining enough.

Chairman Garrett. I appreciate everyone traveling so far. We're just now coming up on, just a couple of months from now, I guess, the fourth anniversary of the two GSEs, Government Sponsored Enterprises, Fannie Mae and Freddie Mac, being put into conservatorship.

As we approach this significant deadline, we recognize that it has been done with a cost, the ongoing balance upwards of $180 billion, and that number, of course, is expected to grow significantly over the next several years. Currently, the American taxpayer is footing, obviously, the bill for all this, and they're also doing so while backing over 90 percent of the mortgage market right now. Put those two statistics together and it's undeniable that this is an unsustainable situation in which we find ourselves.

And so, it is fitting and it's appropriate that we come here for a hearing such as this, to try and figure out how we go forward in trying to take the American taxpayer off the hook, in part by reducing the risk and the burdens of the GSEs, and also by reducing the assets that they have, and to figure out, also, how we can wind these entities down.

This is not just a message that we have, but also a message that the Administration has communicated they would like to see, as well. So, the purpose of today's hearing is to further examine the FHFA and their REO program, Real Estate Owned program. And it's a pilot program they have, that began last year. What is it designed to do? It's designed to determine the best ways, if you can, to come up with, to do this not just in the pilot program—they're just doing a small program—but to do it in a much larger program, bulk sales. And you're selling these not just to regular investors, but to rather significant investors who will then take those assets and manage them and service the properties and then rent them out to local residents. From looking into this and from talking to people involved with this, this is not a simple matter all by itself; it's a fairly complicated procedure. There are going to be many questions and I'm glad that we have the witnesses here on the panel today who have a background in this. We'll probably go into some detail with you on some questions.

You run through the list and it's a "who, what, when, where, and how" sort of list of questions. The first one, I guess, is the "who," and that is the investors. Who are the investors, what is the level of interest that they have in these new, sort of, asset classes?

The "what" is the standards that we're going to be using. What are the standards that we should be applying to the "who," the investors, in order to become an eligible buyer in this marketplace?

The "how" is how you maximize the value of the property and receive market value when you're selling in bulk. See, I'm just throwing these out on a large scale and not getting a fair return to the GSEs. "How" also is how are all of these assets, all of these properties, going to be managed over time to make sure that they're appropriately managed?

Going back to the "what," what role does the government put by community groups, the nonprofit groups, in the local areas of play, depending on these areas?

And, again, the "how," how can private institutions that have REO portfolios use this as a potential model that's out there? We would have to look at them and say, that's the way we should be handling this, that's the way we can deal with it. So, that's a few of the questions, and my colleagues are going to have a lot more questions than that. I look forward to learning the answer to these and many more.

As I said, I have talked to folks who were involved in this, in similar-type programs. They do offer significant potential, but they also offer potential risk, as well. And so, it's critical that we do it, but it's critical that we get it right. There is, obviously, a significant amount of inventory, in the shadow inventory that currently exists. But we want to make sure that we do it in a way that maximizes the return, if you will, to the taxpayer.

I'm hopeful that an efficient, cost-effective strategy or disposition of the property can decrease the risk of these entities, maximize the value for the taxpayers, and help the housing market in these hardest-hit areas that we're examining.

One other thing, is that I just wanted to thank Congressman Bob Dold for his work: first, for facilitating the hearing that we're having here today; and second, for the lead that he has taken in this important area, and for the hard work that he has put into the whole general area of housing and what we can do in the housing markets. He has been a significant contributor to this topic for myself and this committee. As you may know, since he is playing all those roles, he was going to be with us here today, but unfortunately, very sadly, he has recently had a death in his family and so was not able to be with us. But we will continue to look forward to his involvement as this issue proceeds.

One last note, and that is to Director DeMarco, since we're on the record, and I have said this before, I would just like to commend him for his work and his achievements in this area and other areas over there at the FHFA. I know he comes under significant pressure on both policy and politics, and I think he has done a very outstanding job in the role that he has; it is a very difficult role that he has. He did not succumb to those political pressures, but instead realized that he has to, and has, lived up to his requirements, the statutory requirements and what is in the law, and that is to stand between those pressures and the American taxpayer, who would be on the risk otherwise, if he was not doing the fine job that he is doing. So, carry that message back, if you would.

With that, I yield back my time, and just at the opportune time, I will yield to Mr. Schilling. Thank you for joining us.

Mr. SCHILLING. You bet. It's an honor to be here. I'm sorry I was running a few minutes late; I got caught downtown. I am looking forward to hearing from you folks and then asking some questions. So, thank you for allowing me to participate.

Chairman GARRETT. I now recognize Mr. Huizenga.

Mr. HUIZENGA. I'm Bill Huizenga from Michigan; leave it to the Michigan guy to always carry a map. My district is over on the west side of the State, and hopefully a number of my Chicago friends here will come and visit us on the west side of Michigan as often as my wife and I come down and enjoy Chicago.

This topic is very much of interest to me. My professional life prior to being involved in politics was in real estate developing. My family has a small construction company over in Michigan. And any time we're talking housing, it has ramifications and impacts for, frankly, everyone around the county. I, too, am very interested in seeing how we are going to unwind some of these things.

I often have brought up that in my time, starting in the late 1980s and early 1990s in real estate, getting an FHA loan or a Fannie Mae or Freddie Mac loan was fairly unusual. It was quite unusual, in fact, in our area. You needed to own your lot or you needed to have 20 percent down. And 20 percent became 15, became 10, became 5, became 0, became 120 percent loan to value, and here we are. We found ourselves in some situations that, on one hand, we haven't been able to control, and on the other hand, there have definitely been inputs from us as policymakers and things that have happened in the past that have influenced and affected that. And I'm here to help try to figure that out.

As the chairman was saying—and I want to commend Chairman Garrett for his leadership on this and many other issues—we are looking at how we are going to make sure that while we are transitioning back away from the current roles that we have, how we're going to do this in a way that makes sense and doesn't do further harm. And we have sort of a political Hippocratic Oath here, "First, do no harm," to which we need to adhere.

So, with that, I yield back, Mr. Chairman, and I thank you for the opportunity to be here today.

Chairman GARRETT. And I appreciate you being here, as well. Before I yield to the gentleman from Arizona, I would like to take this time to thank the Judge for facilitating the use of this courtroom. My first job out of law school was as a clerk to a U.S. Magistrate, and I learned those guys are very protective of their courtroom. And rightfully so. So, it's a privilege and an honor to be able to be here, and to have the use of the courtroom, as well. We're all very much appreciative of that.

And with that, I yield to the gentleman from Arizona.

Mr. SCHWEIKERT. Ms. Burns, in your testimony—please understand, I may be one of the more aggressive Members of Congress on this particular subject. I look at what's going on in my market area, which is Maricopa County, Arizona, one of the largest counties in the United States. And you're going to hear me say this 2 or 3 times: If you go to our multiple listing service, we have less than a 5-week supply of homes $250,000 or less. There's demand and hunger, but yet our REO pipelines are inefficient and aren't working. And I appreciate wanting to do a pilot program, but the size of this pilot program is heartbreaking. It does not put out enough product to do, I believe, true price discovery.

Hopefully, you're seeing that with folks who are becoming qualified bidders. If you truly have 200, 300, 400, or 500 qualified bidders, you understand you have a demand out there. I am very happy that, from what I'm picking up, you are going to do different sized packages to find the price discovery. And when we get to questioning, I want to walk through some of those mechanics there. But, in your testimony, and this may be outside your written area, share with us when you're going to loosen up this pipeline.

There are 2,500 properties, and you're sitting on a couple hundred thousand, and there are at least that many more in the pipeline. This does not satiate your problem or the demand on the other side. Thank you, Mr. Chairman.

Chairman GARRETT. And now, we'll turn to our first panel. We have Ms. Burns and Mr. Stegman with us today. Ms. Burns is the Senior Associate Director for Housing and Regulatory Policy at FHFA, and Mr. Stegman is Counselor to the Secretary of the Treasury for Housing Finance Policy at the U.S. Department of the Treasury.

We will begin with you, Ms. Burns. And we welcome you with all of your trials and tribulations that you had to get here. As always, your full statement will be made a part of the record, and we will recognize you for 5 minutes to give an oral summary. Thank you.

STATEMENT OF MEG BURNS, SENIOR ASSOCIATE DIRECTOR, HOUSING AND REGULATORY POLICY, FEDERAL HOUSING FINANCE AGENCY (FHFA)

Ms. BURNS. Chairman Garrett and members of the subcommittee, thank you for inviting me here today to testify on the Federal Housing Finance Agency's Real Estate Owned Initiative. I am Meg Burns, Senior Associate Director for the Office of Housing and Regulatory Policy at FHFA and I am responsible for managing this project.

As you know, since 2008 FHFA has served as the conservator to Fannie Mae and Freddie Mac, a responsibility that the Agency takes very seriously. FHFA has focused on minimizing losses to both companies through tighter underwriting standards, more accurate pricing of risk, and aggressive loss mitigation strategies.

My remarks today will focus on a particular loss mitigation effort, the REO-to-Rental pilot, which was designed to test a new approach to property disposition. The goals of this pilot are narrowly targeted.

One, to gauge investor appetite for a new asset class, that is scattered-site, single-family rental housing.

Two, to determine whether the disposition of properties in bulk, as opposed to one by one, presents an opportunity for well-capitalized investors to partner with local organizations to engage in profitable yet civic-minded approaches to improve market conditions.

Three, to assess whether the model can be replicated by other financial institutions.

Now, for the status of the pilot. We are well into the first transaction, announced in February. Included in the first sale are approximately 2,500 properties divided into 8 subpools, located in Las Vegas, Nevada; Phoenix, Arizona; various parts of Florida; Riverside and Los Angeles, California; Atlanta, Georgia; and here in Chicago, Illinois. There are several steps to the process: prequalification; due diligence; qualification; bidding; and award. We are now at the qualification stage.

Immediately following the February announcement, interested investors were asked to prequalify by certifying to their financial capacity, market experience, and obligation to follow the transaction rules. Those who prequalified were then eligible to post a security deposit to review detailed asset level information, and to submit an application to qualify to participate in the auction. Evaluation of those applications is now under way.

The application process is comprehensive, rigorous, and demanding, requiring exhaustive amounts of information and documentation from the applicants and their business partners. Only those investors who have sufficient capital and operational expertise will make it past the scrutiny of the reviewers. The application requires that the investors describe their previous experience managing single-family rental assets from marketing to leasing to maintenance. How relevant, extensive, and recent that experience was will matter in the scoring.

In addition, the applicants must detail their plans for operating a first-rate rental program with these particular properties. They must explain how they would rely on local and regional organizations to tailor their programs to meet the needs of residents in these communities. There is an expectation that local construction and repair companies will be engaged due to their familiarity with State and local building codes, that local property management firms will bring knowledge of potential tenant population in the area and the best means of marketing to these citizens, and that community-based nonprofits may provide supportive services to the residents.

This rigorous application process is intended to narrow the pool of eligible bidders to those who have financial and operational expertise, but also the mission-oriented commitment to ensure that this program brings capital to markets in need in a way that stabilizes communities.

Currently, the independent third party that was hired to review the applications is busy rating and scoring, a process that will be completed in the next few weeks. After that, eligible bidders will be notified and the bid process will begin. FHFA's goal is to complete this first pilot transaction in the next few months.

To recap, the REO-to-Rental Initiative is a pilot, a test to see whether an alternative disposition strategy can complement existing sales efforts, generating private investment in single-family rental housing in a way that is both efficient and effective at stabilizing local markets.

I thank you for the opportunity to testify today, and I look forward to your questions.

[The prepared statement of Ms. Burns can be found on page 44 of the appendix.]

Chairman GARRETT. Thank you.

Next, Mr. Michael Stegman, Counselor to the Secretary for Housing Finance Policy. Thank you.

STATEMENT OF MICHAEL STEGMAN, COUNSELOR TO THE SECRETARY OF THE TREASURY FOR HOUSING FINANCE POLICY, U.S. DEPARTMENT OF THE TREASURY

Mr. STEGMAN. Thank you, Chairman Garrett, and members of the subcommittee. Thank you for the opportunity to testify this morning.

Prior to joining the Department of the Treasury as Counselor to Secretary Geithner for Housing Finance Policy 4 months ago, I worked on housing policy in various capacities over the course of a long career. Most recently, I was the director of policy and housing at the John D. and Catherine T. MacArthur Foundation headquartered here in Chicago. Before that, I spent much of my career as a professor of city planning and public policy at the University of North Carolina at Chapel Hill. During my 40-year tenure at UNC, I twice took leave to serve in the Carter and Clinton Administrations as a senior official at the U.S. Department of Housing and Urban Development.

Throughout my professional life, I have been involved with housing and community development policies, and with broadening access to safe, sustainable mortgage credit. I have come to understand the importance of safe and secure neighborhoods and stable communities to social and economic advancement.

While at the MacArthur Foundation, we invested millions of dollars to help revitalize and improve the quality of life at a large number of low-income neighborhoods right here in Chicago, communities that are now hard hit by foreclosures and the intended loss of wealth through the collapse of housing crisis. While among the hardest-hit communities, Chicago's circumstances are repeated to varying degrees in communities across the country, which is why it is so important to do all that we can to help financially distressed families keep their homes, and work to reduce the damage that foreclosures do to families, neighborhoods, and local housing markets.

And so, I thank you for holding this hearing to discuss the FHFA, Fannie Mae, Real Estate Owned Initiative. While my written testimony places this pilot within broader Administration efforts to help heal the housing market, I will focus my remarks just on the pilot and REO-to-Rental.

We believe that scale initiatives like this have the potential and the underscore potential to achieve five beneficial outcomes.

First, they can attract private investment back to some of the hardest-hit neighborhoods where there is weak homeownership demand.

Second, by removing a significant number of REO homes from the for-sale market, successful REO-to-Rental efforts help stabilize local housing prices, thereby benefiting existing homeowners and performing loans.

Third, by creating new rental opportunities for former homeowners and others not interested or able to buy a home. These programs have the potential to reduce inflationary pressures in the rental market caused by the surge in rental demand.

Fourth, carefully executed REO bulk sales can complement neighborhood stabilization activities through private investment and acquisition rehab and responsible maintenance of hard-to-market properties for which there is little ownership demand.

And, finally, this disposition strategy may provide financial institutions, including the Government Sponsored Enterprises in the case of the FHFA pilot, a potentially cost-effective alternative channel to sell foreclosed properties in scale and in ways that compete favorably, but they're all in costs associated with runoff retail sales.

However, as the chairman and others on the subcommittee noted, perfecting a business model that would convert these potential benefits into on-the-ground results will need to come easily or quickly. Investors and their partners must be properly equipped to deal with the challenges associated with developing the necessary infrastructure that will enable them to cost-effectively rehabilitate, maintain, and successfully market and manage dispersed single-family properties in places that have had, in some cases, bad experiences with nonresident investors and absentee owners. It may well be that the ability of these emerging businesses will effectively address community relations and become good neighborhood citizens, will help ultimately determine that financial success and the quality of outcomes for families and housing markets. With respect to the FHFA pilot, to achieve good outcomes Fannie Mae must get more than just a good price for its eight sub portfolios. This is why we're very pleased with the high standards that Fannie and FHFA set for investors interested in becoming qualified bidders in the auction. Investors must be responsible and responsive property owners committing to investing for the long term.

I'll highlight just three important requirements of the qualification and bidding process. First, investors who lack experience and expertise to successfully manage large-met numbers of scattered-site properties, who don't have experience in the communities in which the portfolios are located, or who have a history of behavior that could lead to bad results, as Ms. Burns said, will not be eligible to participate. Qualified bidders must agree to provide tenants, out of its own funds, housing counseling and credit repair services, and to provide credit bureaus necessary documentation of tenants' rent, timely rent payments, to help boost their credit scores.

Second, effective operating guidelines and compliance and reporting requirements will be part of the contractual agreement between the Enterprise and the investors. We are mindful that this pilot is a transaction between a private seller and private investors, and not a government program. But nevertheless, it is in the interest of the Enterprises, and FHFA, and the taxpayers that properties be well-maintained and the commitments made by winning bidders will be kept.

Finally, requiring a minimum of 3 years of rental occupancy before the majority of homes can be sold is critical to achieving market stabilization goals and attracting capital sources, management expertise, and investors with longer-term investment horizons that FHFA is seeking from its successful bidders.

Ultimately, we hope that if this pilot is successful it can serve as a model for private market participants. Investors from across the country may read—and here—are actively pooling capital as a sign of increased interest in this kind of business model. And lenders are beginning to develop products to provide investors with the necessary financing to invest in this space. We have heard anecdotally that the private sector is looking to Fannie Mae's initial pilot as a model, in the same way that mortgage servicers relied on HAMP when developing their proprietary loan modifications. We hope that many of the same investor standards and usage restrictions in the pilot will be replicated so that communities are properly protected, tenants are effectively served, and investors can be appropriately rewarded for doing the right thing.

In closing, I want to note that we're also encouraged that a number of financial institutions are beginning to develop alternatives to foreclosures, such as deed-for-lease, deeds-in-lieu, and short sales programs, as well as selling nonperforming loans to help families who can no longer support ownership. These initiatives are beneficial to the affected families, help keep REO assets from growing and properties from deteriorating. And they complement an REO-to-rental strategy. Treasury's Home Affordable Foreclosure Alternative Programs set a new standard for short sale and deed-in-lieu execution by promoting pre-approved short sale transactions, requiring that borrowers with a genuine hardship will be released from liability for the remaining mortgage debt upon sale, and established a reasonable industry standard for payments to extinguish junior liens. The FHFA is also providing important leadership in this area by directing the GSEs to develop enhanced and aligned strategies for facilitating foreclosure alternatives.

Thank you again for inviting me to testify and I look forward to any questions you may have.

[The prepared statement of Mr. Stegman can be found on page 103 of the appendix.]

Chairman GARRETT. Mr. Stegman, thank you; and Ms. Burns, as well. I now yield myself 5 minutes for questioning.

Mr. SCHWEIKERT. You can have all the time you want.

Chairman GARRETT. No, I don't do it like that. Ms. Burns, Mr. Stegman was just talking during his time with regard to nonprofits and the like. Can you spend a little bit of time and delve into that? What are your plans on looking at this? Is this an avenue that you intend to go down?

Ms. BURNS. Sure, absolutely. When we entered into this whole effort, working with several other agencies, we were very concerned about partnering up the investors who may be interested in the bulk sales with local organizations who are already engaged in efforts, maybe in part because of the Neighborhood Stabilization Program funds that were put forward, maybe because there were already efforts in local communities. We brought in a number of large, sophisticated national nonprofits to talk to us, to advise us on how to facilitate the kinds of partnerships that we're looking for. And interestingly enough, one of the things that they said very adamantly was that they did not think that FHFA should impose a mandate that the investors partner with nonprofits, that if it were mandatory, the investors would potentially partner up with less sophisticated nonprofits which would come to the partnership, maybe at a lower cost, those with less capacity, who would maybe not add the value that some of the larger, more sophisticated nonprofits could add.

They were concerned, also, that perhaps sham nonprofit arrangements would spring up. And we were very sensitive to what they were saying, and so what we decided based on all of their good advice was that in the application we would mandate that the investors partner with local organizations which brought the kind of expertise that was necessary to this project. The operational expertise and the value added would come from sort of natural organic partnerships as opposed to mandatory government-imposed requirements.

Chairman GARRETT. Okay, I appreciate that. So, dovetail that into my next question, which concerns the pros and the cons of doing what you're going to do, or hopefully going to do, which is bulk sale as opposed to individual sale. Talk about the pros and cons briefly.

Ms. BURNS. Okay.

Chairman GARRETT. And then, is there an element to the nonprofit at that point, as well?

Ms. BURNS. Yes, absolutely. Today, there are sales to investors that take place, generally one by one. There are some small bulk sales of lower valued properties that take place. One of the concerns we have is that with the retail sales, the investors often are coming in with cash, which is requiring properties to be discounted below where we would like to see them discounted. And as Mr. Schweikert had said previously, it's not really getting at the more local problem when there are large numbers of REOs in certain markets. This effort, the bulk sales effort, really is intended to bring in a different investor class, to bring in the large investors, institutional investors, REITs, who really focus on real estate investment, and to figure out how they can bring new private capital into markets and tie it up with operational expertise at the local level. We had heard that if we could arrange for bulk sales, the investors then could begin putting money into the infrastructure. As Mr. Stegman said previously, that's one of the biggest issues, that's one of the biggest challenges with this project, trying to help create infrastructure at the local level to make this kind of project work. And so, the bulk sales approach provides the opportunity for the money to come in, investing in infrastructure.

Chairman GARRETT. My final question: you laid out all that stuff, can you give us briefly, assuming this all works great, then what?

Ms. BURNS. If this works great, then we will certainly be engaged in many more transactions. I think this first transaction, really what we need to see is, where will these assets price? How will the types of assets, size of the pools, the markets affect the pricing? How will the restrictions that we put in place affect the pricing? How will the mandate that the institutional investors work with, local organizations, affect the pricing? And so, we'll have to see how that all plays out together and learn some lessons from these transactions and determine whether or not we need to change the nature of the pools going forward and make a decision about what the transactions will look like in the future.

Chairman GARRETT. Great, thanks. I now recognize Mr. Schilling for 5 minutes for questions.

Mr. SCHILLING. Thank you, Mr. Chairman. I should have mentioned earlier, actually, I ran from the Quad Cities, home of the John Deere tractor, representing the 17th District of Illinois. So, first I just want to say thank you for coming out. One of the things that I want to talk a little bit about is the bulk sales, and how those are determined. Because one of my fears, especially when we're doing one of these trials, is that what will happen is these investors will come in and they will pick up the cream of the crop of the housing that's available, making this look better than it is. So, can you kind of tell me how that's going to—is it going to be a mix of cream of the crops with some of the housing that needs more work, or—

Ms. BURNS. The initial pools right now, the investor must buy all of the properties in the pool. So they can't pick and choose, they can't cream from those specific pools. There are eight subpools, so they can buy one pool, or all pools, or several pools, but they must buy everything in the pool. The properties that are in these pools are mainly already rented properties, and we did that intentionally because we were concerned that in this first transaction, we wouldn't know how long it was going to take to sort of execute from start to finish, and we didn't want vacant properties sitting on the market for an extended period of time. So, these properties—or, so these pools are composed of, I would say, sort of moderately priced homes—they're not in very poor condition, and they're not premier properties. They're sort of middle-of-the-road properties.

Mr. SCHILLING. Very good, so you can put some sweat equity into them and make things happen. Either one of you can answer this one. Your testimony basically states that the Enterprise currently had about 180,000 REOs. Do you know how many REO properties the FHA currently has?

Mr. STEGMAN. I don't. Ms. Burns may know.

Ms. BURNS. No, I don't know. I think it's in the 50,000 range, but we can certainly find out for you.

Mr. SCHILLING. Okay. Also, the testimony states that the Enterprises currently own or guarantee approximately 1.3 million nonperforming loans, the majority of which are more than a year delinquent. Do you have an estimate of how many of these loans you expect to eventually become REO properties?

Ms. BURNS. We don't have an estimate of how many will become REO properties, in large part because we are hoping to engage in other loss mitigation strategies to prevent that from happening, to tell you the truth. We really would like to either get the borrowers into modification, or if they can't stay in their home, liquidate through some sort of a short-sale-type arrangement, or sell the nonperforming loan to another party who can work to resolve the situation.

Mr. SCHILLING. Do you have an average cost, roughly, from something that we have done already, like for the repairs of some of the REO properties?

Ms. BURNS. I could bring that back to you. We do have all those numbers. I could bring them back; I don't have that off the top of my head.

Mr. SCHILLING. That's fine.

Ms. BURNS. And some properties don't get repaired at all, some of them are in fairly decent condition when you come into Fannie Mae and Freddie Macs, that don't perform any repairs. But, we can find the average cost.

Mr. SCHILLING. Yes. And I appreciate what you folks are trying to do. Because what we are trying to do is, of course, put a floor onto the real estate market to where we can stop it from—but, of course, a lot of times what we see happen is unintended consequences when it comes to some things that we try to have good intentions with.

But with that, I yield back.

Chairman GARRETT. Thank you. The gentleman yields back. I recognize Mr. Huizenga for 5 minutes.

Mr. HUIZENGA. I appreciate that, Mr. Chairman. And thank you for your testimony. I just want to make sure I understand. You were talking about the eight pools that these properties are brought into. And, again, I just want to make sure I'm clear on this. So, geographically, we're talking Atlanta, Chicago, Florida, Las Vegas, Los Angeles, and Phoenix. Which is six, but then Florida is broken up into three areas, so it would be—so, each of those pools would be a Los Angeles or a Phoenix or a Las Vegas, or some particular area in Florida; is that correct?

Ms. BURNS. That is correct.

Mr. HUIZENGA. Okay. Now, obviously, if we're targeting REITs as potential purchasers of these—these are not unsophisticated investors, or organizations, it would seem to me that as Mr. Stegman was talking about, if the goal was to stabilize neighborhoods, homeownership is probably one of the leading indicators of a stable neighborhood. Which, frankly, that goal may have helped it get—helped us get out over our skis. And having homeowners who maybe weren't quite ready for that ownership. And I'm trying to make sure, though, that I understand if we have a large pool somewhere, 50,000 or 60,000 potential properties; right, is that what we're hearing?

Ms. BURNS. For this kind of arrangement, I doubt you would ever have a pool of that size. This first transaction is 2,500 properties spread across those 8 subpools. And, really, Fannie Mae and Freddie Mac both have retail strategies that sell first to owner/occupants, as you were saying. And those have been very successful. So, we would consider—the retail sales execution will continue to be the primary way that they sell their REO properties. There's not a sufficient concentration of the units to sell them in bulk at those very large volumes, and we agree that it's best to first try to get an owner occupant into the property.

Mr. HUIZENGA. So, we're talking about a fairly small—I don't want to—you keep using the word "pool," because we have too many pool discussions happening here, on the eight various pools. It's a narrow slice of—

Ms. BURNS. That's correct.

Mr. HUIZENGA. —eligible properties.

Ms. BURNS. That's correct.

Mr. HUIZENGA. I think maybe going to my colleagues' concerns here, if we still have a significant number of properties, it seems like we're kind of throwing around two sides of this. These investment pools are large, therefore, we need to have organizations such as REITs coming in and doing this professionally. Yet, if we're talking 2,500 divided across 8 separate pools, and I'm a social science major, not a hard science major, but my math would—it's somewhere near 300 homes per pool?

Ms. BURNS. Actually, we were testing varying sizes, so the smallest pool is approximately 100 properties, and the largest pool is approximately 500 properties.

Mr. HUIZENGA. Okay. And then do you expect these REITs to be coming in and purchasing the entire pool, a slice of the pool, how many players are going to come in and deal in that, the waters of that 100-home pool versus the 500-hundred-home pool?

Ms. BURNS. Right. That's one of the things that we're testing. The opportunity is to buy all of the subpools at once, to buy—

Mr. HUIZENGA. All eight?

Ms. BURNS. All eight. To buy one pool at a time.

Mr. HUIZENGA. Does that cause you concern, Mr. Stegman, if you're talking about how you need to have a local understanding of what's happening? If I'm a California REIT, or a Michigan REIT, and maybe I'm a Michigan REIT and I have no connection in any of those eight areas, personally, I would not be concerned with that, because, again, I think these are sophisticated investors that aren't just investing, they are protecting their assets, and they know what they're going to be doing. But, does that cause you any concern?

Mr. STEGMAN. Thank you for that question, it gives me a chance to clarify. We're talking about the requirements that bidders, whether they bid on all eight or just one, have experience or partners who are familiar with and have worked in the geographies in which these portfolios are located. And so, the source of the dollars, if they come from a REIT that has sufficient investment capital to bid and win on all of those, the evaluation process, my understanding is, and Ms. Burns can correct me if I'm wrong, but they would be evaluated geography by geography, sub-portfolio by sub-portfolio, and if they fail in one or two, that would really not bring them to a winning bid. I think the other point I would make is that the composition of these portfolios, you may be in a suburban subdivision in one case, and an urban neighborhood in another, and the relationships that we're talking about really have to be tailored to the locality, and you would expect a sophisticated investor to recognize that.

Mr. HUIZENGA. I believe my time has expired, but I would like to, maybe in another round here, explore exactly whether these properties have been identified. Do we know whether they are urban or suburban or rural, or where exactly those properties lie within these widely disbursed—

Chairman GARRETT. Do you want to just give a quick answer to that?

Ms. BURNS. Sure. So, the effort was to find properties that were concentrated relatively closely within the markets. But it is true that some will be in suburbs and some will be in urban areas. I don't think there are any that are in truly rural areas, within any of these markets. But there will be sort of wide geographies within each subpool.

Chairman GARRETT. Thank you, Ms. Burns.

The gentleman from Arizona?

Mr. SCHWEIKERT. Thank you, Mr. Chairman. And if I come across a bit cranky on this, it's a hazard of the fact that this is one of my areas of true expertise. Before getting elected, I was the largest buyer of single-family homes in the southwest.

My investment partnerships—my undergraduate is in real estate and real estate economics. I chaired the board of equalization; I was the county treasurer. This is my life.

Mr. Stegman, I am very uncomfortable with much of your opening statement, on how bureaucratic it sounds. And look, first let me paint a scenario from my expertise with Maricopa, Arizona, one of the hardest-hit areas, but also one of the largest. It's the third or fourth biggest county in the United States by population. I can take you through neighborhoods that have been devastated by foreclosures and look better today than they have in 30 years. Because one, two, three, four, foreclosure, investor bought it, new roof; one, two, three, four, foreclosure, new family, new landscaping. It has become almost an urban renewal because individuals have brought in their own capital and fixed up those neighborhoods. And there finally is that role of value and fixing up and new lives being formed. And this arrogance that somehow we're going to do a command control, it disturbs me. Because at some point you're making an assumption that an investor, whether they're bidding on 25 houses—which we need to talk about, whether you should offer a pool size of that—or 1,000 houses, as we bought. We don't know how to manage the money, we're not interested in maximizing our rate of return, having good tenant relationships, all the things you would do in managing the money organically, without a command and control system.

So, with that bit of tirade, let's first start—and I didn't even reset my own time. Ms. Burns, on your pool differentials and size, I noticed you did not go down to some of the previous discussions we had with your agency.

Or, going down, even offering sort of micro pools, 25 properties all the way up to 500,000. Is that just because you are offered so few properties in this pilot program?

Ms. BURNS. No, there are still small bulk sales that are done today. But, we felt that this particular effort was intended to try to bring in those larger investors, so we needed to have larger pools. We will still consider small bulk sales, but the concern was that there was already a program in place that was offering that kind of an arrangement. We also had heard, actually, from the small investors that they were more interested in financing than in the actual bulk option to buy; they were looking for financing so that they could buy properties one at a time and ultimately create their own pool.

Mr. SCHWEIKERT. Okay. But in this experiment, if you were doing true price discovery, you would have done anything from 25 to 1,000 houses.

Mr. STEGMAN. Do you actually have someone who does this type of investor economics at the agency?

Mr. STEGMAN. Excuse me?

Mr. SCHWEIKERT. Do you have someone who has an expertise in this side of the housing economics, which is the investor or the sale take-down side?

Mr. STEGMAN. There is expertise at Treasury in these areas.

Mr. SCHWEIKERT. Okay. Our models used to always say that we would not even break even until we hit 200 houses in a pool. Just because of the—and that also mattered on our geographic distribution—just because of our property management mechanics. But, ultimately, you may have a group of dentists that all get together and they want to buy 25 houses. God bless them. You may have a REIT that says, we're not playing unless you can give us 1,000 properties and in a geographic, major urban area, because that's the type of money we have to park for our fees and management. And maybe this is best for Ms. Burns. Why shouldn't I be disturbed that there are so few properties in this program?

Ms. BURNS. Interestingly enough, while it sounds like Fannie Mae and Freddie Mac have a lot of properties that are just sitting on the market for sale right now, it doesn't really work that way. So, there are 170,000 between the two companies, and only about half of those are actually on the market for sale. And in concentrated and specific markets, there are only a handful of markets that have at least 1,000 properties.

Mr. SCHWEIKERT. But isn't that almost actually the point, you have a pipeline. Okay.

Ms. BURNS. Right.

Mr. SCHWEIKERT. Particularly in intertrust States, I understand you have some States where because of the—the mortgage and the mechanics, that you may have redemption periods—

Ms. BURNS. That's right.

Mr. SCHWEIKERT. —over here. But if you have literally half your inventory, and in my understanding, it's dramatically more than half your REO inventory that isn't even being marketed, isn't that literally the inventory you should be grabbing and moving into these?

Ms. BURNS. The inventory that's not being marketed is not available for sale because of the redemption periods, because of being repaired, because there are tenants in them, or families who are being evicted because the property has been foreclosed upon. They're in a state of preparation for sale. And that's sort of the way it always works, that there's some time period when the property is being prepared to sell.

Mr. SCHWEIKERT. But the fact of the matter is you can still put a property up for sale, at least in the deed class to trust state, the day after you do the takedown of the deed of trust. And so, you're telling me, Maricopa County, the third, fourth biggest county in the country, has 400 houses? That's all you could put together in a pool?

Ms. BURNS. I will say, we were very sensitive to two sides of this issue. One is the real estate agent who is selling properties one by one to investors today, who felt that this bulk sales approach was interfering with a process that worked well today. So, we were very sensitive that there were plenty of people who were complaining that the bulk sales approach was actually problematic in bringing market recovery that we wanted.

Mr. SCHWEIKERT. Okay.

Ms. BURNS. Then we had another side—

Mr. SCHWEIKERT. Actually, that's economically backwards. The fact of the matter is, if you're in a marketplace that has 4 or 5 weeks of property for sale, and we're actually hearing that the average contract, in at least my—and I know I'm being Maricopa County-specific, is getting 8 to 12 contracts now.

Ms. BURNS. Right.

Mr. SCHWEIKERT. We're in a fascinating cycle. And every time a house sells—what is your model for winter property sales, of how many dollars go back into the rehab, or the carpet, the drapes, the landscaping? Do you have a base model of dollars?

Ms. BURNS. Do you mean in the existing retail sales strategy or in bulk sales?

Mr. SCHWEIKERT. Yes, even in your retail strategy, because the amount's going to be the same, or your investor sales?

Ms. BURNS. Okay. That was the same question that—

Mr. SCHWEIKERT. Okay.

Ms. BURNS. —Chairman Garrett asked, and I don't know the answer.

Mr. SCHWEIKERT. We have a built model, that $6,000 was our average, so for whatever value that is. Think about the sales you're starving from Home Depot, from the local landscaper, from everyone else, by the trickle out here. If you want to stimulate effect in many of these marketplaces, sell the properties.

Ms. BURNS. It's ironic that you say that, because we actually have gotten articles from a number of people who think we should not engage in this bulk sales approach, pointing to just what you're talking about, saying, "Look at how strong the Arizona market is; you shouldn't be doing bulk sales in these markets."

Mr. SCHWEIKERT. Yes.

Ms. BURNS. Just so you know.

Mr. SCHWEIKERT [presiding]. No, I understand. But if you sit them down and explain to them that they're complaining that investors keep buying the properties, what's happened is you have just now forced the investors to go beat them to it at the auction steps, instead of the retail sale that you're doing. So, they're someone that doesn't understand basic housing economics.

And I'm way over my time. Mr. Schilling, I now yield to you 5 minutes.

Mr. SCHILLING. Very good. I thank you for that. A couple of things. Boy, you're pretty good. Hey, will you let me know when I'm getting close on that timer.

Mr. SCHWEIKERT. We'll just start tossing stuff at you.

Mr. SCHILLING. Okay. That sounds good. What I wanted to do is go back to Mr. Stegman. Do you expect the Attorney General's mortgage servicing settlement to impact, or how do you expect it to impact the future of the REO companies, I guess? I'm sure it's probably seen as a positive impact, I would hope.

Mr. STEGMAN. Congressman, I'm not sure about the REO and the current REO inventory, per se, but where the settlement comes into play is in the nonperforming loan areas, and whether or not a servicer who might sell a portfolio of nonperforming loans, that a portion of which then get modified would, nor to the credit of the seller of those, the servicer who has an obligation under the settlement, those issues are still being really clarified. But with respect to the already existing REO emporium, I'm not sure that there is a direct constraint, if you will, on this pilot.

Mr. SCHILLING. Okay. And then do you know how many of the REO properties currently exist in the private markets?

Mr. STEGMAN. Ms. Burns might be able to clarify. But my understanding was there were about twice the number of REO properties in the non-GSE portfolios, so we're talking about perhaps 400,000, and around 200,000 in GSEs.

Mr. SCHILLING. Okay. And then given that neighborhood stabilization is the goal of the program, how long will it take to be able to determine if the program has been successful?

Mr. STEGMAN. I think if you start with the pilot, clearly what we're trying to do is to learn from that pilot, and we don't expect—although, in a micro neighborhood, perhaps, we would be able to see in a pilot a couple of hundred rental houses improved and stabilizing, and maybe having an effect. But if you kind of look at what it takes to get to scale, and the real scale of the problem, this is not—it will take a while for this business model to grow and to reach scale, and to really have an effect on the market. So, this is something that we want to be able to watch. And one of the reasons why I think the pilot is so important, is that we have an interest in really learning from it in kind of a systematic way. Right now, it's not clear to me how we really determine what is happening across the country in the non-GSE States, and what effects it might have, because these are proprietary transactions where nobody is collecting kind of the baseline information and so on. But it will play out over several years.

Mr. SCHILLING. You see, I'm a small business owner in the Quad Cities and I struggle with that, because we ought to have some picture of what the success of this program is. I'm with David on this, in that I don't believe that we should—we have to sell, we have to get rid of these houses, basically. And, I think we saw this coming for years; we knew it was happening. People who probably—not everybody should own a house. When you come in, and the Federal Government, every time they engage this process and try to, so to speak, take it over, that's why we're in this mess we're in. People were buying houses who should not have been buying houses. My wife and I, when we started out, we couldn't afford a house, so we rented. But what happened over time is that you could just qualify without qualifying. So I just get frustrated with everything that's going on.

Mr. STEGMAN. Congressman, there's a difference between—we know what success looks like and how long will it take for success to materialize and to be evident. And I think, as I said in my testimony, there are places that are seeing surging rents because of the increases and demand.

And we would expect to see that relative to other places that don't have these kinds of pilots and programs moderating rents. We would hope to see stabilization of home prices and improved performance of mortgage loans there. So, there are a number of outcomes that I think we wouldn't see, but depending on scale and where these are and what is happening in the general economy will determine how long it takes to see this.

Mr. SCHILLING. One of the things I find, and this is my first time ever serving in Congress, I actually had no intentions of ever running for a public office until I was watching what was happening to my country, to be quite forward. But, do we have—you have a little bit of a background on David and his background. Do we have people in your service, who work with you, who have the expertise similar to what this person—because the thing I find with the Federal Government, it's a bureaucratic system to where they appoint their friends and buddies. And it's quite frustrating, to be forward. But, do we have the experts? We have people who are putting the healthcare systems together who have no expertise in healthcare. But, do we have some top-notch people? We have some great Americans, I'm sure they're out there, but do you feel that you guys have some good solid people who are in there trying to put this pilot together and make some good decisions for the United States of America?

Mr. STEGMAN. If you want to talk about putting the pilot together, speaking from the Treasury perspective, we have an enormous amount of talent. But you also have to appreciate that we are talking with stakeholders, investors, folks with the kind of experience that you're talking about, institutional investors, small investors, all the time about the kinds of issues that we're talking about. So, we're not sitting in a bubble or a vacuum trying to think grand thoughts. We are really connected to the markets and the communities.

Mr. SCHILLING. Very good. Thank you all. My time has expired.

Mr. SCHWEIKERT. Thank you, Mr. Schilling.

Mr. Huizenga?

Mr. HUIZENGA. Thank you. And I just want to—that's the good thing about having a smaller field hearing like this, we get lots of bites of the apple, otherwise we're—

Mr. SCHWEIKERT. More chances to ramble.

Mr. HUIZENGA. Yes, as freshmen, we're so far down on the dais we have to be there an hour-and-a-half before we can actually question you. So, this is great. I want to kind of return to my understanding of these eight pools. You're saying they're pools divided up between one to 500 homes. As Mr. Schweikert was saying, they didn't really look at pools until there were about 200 homes, 200 properties. I'm not sure if that was—

Mr. SCHWEIKERT. We didn't make a profit until we hit 200, to cover our management expenses.

Mr. HUIZENGA. And there are different models for different sizes, and I certainly know some people who at least view themselves as professional investors who may do smaller and those kinds of things. But it seems to me we're trying, if we're going out and basically saying, "Hey, who wants 2,500 homes?" What kind of REIT might be out there looking at that? That's what I at least heard you were indicating, that there's an opportunity to buy the 2,500 down to 25. Those are very different, very different business models, and investment models.

So, I guess two things. One, I would like you to—and I assume, Ms. Burns, it's probably your area here—describe how this bulk sales scheme—and I use that in the British sense—scheme, plan, project is different than the current bulk sales that you have talked about. So, explore that a little bit, and then I want to touch on maybe more philosophically, both from Mr. Stegman and yourself, the speed of which is most beneficial to have these properties through the process, that it seems to me pretty clear we need to go through. And what are the benefits and the liabilities of slowing the process down and only making this 2,500 versus speeding it up and some of those, maybe, dueling views as you indicated. So, if you could touch on those two things for me.

Ms. BURNS. Sure. Let's start with slowing down, speeding up. There were 2,500 properties total across the whole country.

Mr. HUIZENGA. Actually, it would be more helpful for me—

Ms. BURNS. Yes.

Mr. HUIZENGA. —if I knew the differences between what you're talking about with this program versus what is currently happening.

Ms. BURNS. Okay, sure. The existing small bulk sale program takes properties that have been marketed for some period of time, generally, 6 months. They were put out for sale to a nonprofit or an owner/occupant first, for 15 days, if they didn't sell, then investors had an opportunity to purchase the property that didn't sell.

Mr. HUIZENGA. Basically, everybody has passed.

Ms. BURNS. Everyone has passed it over—generally, low-value properties that, for whatever reason, have not sold, maybe the condition, maybe just the market and the location itself. Those properties are pooled up and sold often to local governments, nonprofits, smaller investors who are looking to repair and put them into rental arrangements, generally.

Mr. HUIZENGA. How big are those lots, typically? Are we talking 5 homes or 50 homes, or—

Ms. BURNS. I actually don't know.

Mr. HUIZENGA. Yes, I didn't mean lots, we're using way too many "lots" and "pools."

Ms. BURNS. Yes, I know. I don't know the average size of those pools. I know that they're smaller than the ones in this bulk sale approach, which has 100, so, 30 to 50.

Mr. HUIZENGA. Could you get that information to me?

Ms. BURNS. Sure, absolutely.

Mr. HUIZENGA. That, to me, is of interest.

Ms. BURNS. Sure.

Mr. HUIZENGA. If you have stale property that has been out there, and my guess is if it's on there for 6 months, it's probably on there for 18 months. That's what I'm hearing from my former colleagues is, you have new property hitting the market, it's either gone or it's going to just become a dinosaur and it's going to stay, for whatever purpose. So, if you could maybe—afterwards we'll do some follow-up, that would be helpful on understanding this current schedule.

Ms. BURNS. Sure, absolutely. So, this new bulk sales program is really intended to create larger pools and—

Mr. HUIZENGA. Presumably with slightly better properties.

Ms. BURNS. Better properties, exactly. Take them off the market earlier in the process. Not post-retail sales strategy, but as soon as they come to Fannie Mae and Freddie Mac and are prepared for sale and are eligible for sale. As well as, of course, we put in the rented units. Fannie Mae in particular has a very large number of units that are already rented, they already were owned by investors whose properties were foreclosed upon.

So, we're trying to put those two groups together in these pools. The speed with which we can move these pools, this first transaction is taking longer, in large part because, as Chairman Garrett said, we want to get it right. We have had lots of negotiations and discussions about how to balance out competing interests. There are people who think that we shouldn't do bulk sales at all, because there's sufficient demand in most of these markets from other owner/occupants or investors. And there are parties who think that we need to be very careful about engaging the local organizations which have been involved in NSP activities and such, and use these properties as part of efforts already under way. We're to find the middle ground between those two, and so we're trying to be very careful in how we design this first transaction.

Mr. HUIZENGA. And I see my time has expired, so we might have to explore more of the aspect of the process, but—and I know we have—the march of time is on us all as we are going to have to get on planes to Washington, D.C., and those kinds of things. But I appreciate this, and I would love to continue that conversation. Thank you.

Ms. BURNS. Sure.

Mr. SCHWEIKERT. This is fun, when you're timing, of course I can just—share with me when—right now in the 2,500 that are being broke down here. Was I to understand a large number of these already have underlying rental contracts?

Ms. BURNS. That's correct.

Mr. SCHWEIKERT. In your attempt to do price discovery, have you broken them apart, saying, here are ones that already have underlying rental agreements, and so rental property rights and those that don't?

Ms. BURNS. Yes. So, ultimately, when the bids come in after this qualification process and we get to the eligible bidders, when the bids come in the bidders will tell us how they value each property. And so, we'll have a sense of their perspective relative to our perspective, and we'll have the opportunity to see, do they pay more if there's a renter in the home, do they pay less if there's a renter in the home.

Mr. SCHWEIKERT. Okay. And are you providing the data of the rental stream, both the rent and quality of the tenant in regards to the payment history?

Ms. BURNS. Yes.

Mr. SCHWEIKERT. How soon the rents come in.

Ms. BURNS. Yes. There's a data room where all of the investors can see for every single property, photos, rent information, title information, everything that they would need.

Mr. SCHWEIKERT. And disposition of the assets. So, let's say my new best friend here, he and I have our pool, we're one of your qualified bidders, and we buy 400 properties. We're blessed to get this. Are we deed-restricted, and if so, for how long, before we're allowed to sell?

Ms. BURNS. You're restricted for 3 years, but there is the ability to sell up to 10 percent of your subpool.

Mr. SCHWEIKERT. Okay. So we are going to do a 10-percent rule.

Ms. BURNS. Right. And if any particular property presents a challenge in terms of cash flow, rental income cash flow, it's just not economic to hold it, that may be considered for sale, as well.

Mr. SCHWEIKERT. Okay. But, is this going to be done through a deed restriction?

Ms. BURNS. Yes.

Mr. SCHWEIKERT. Okay. So, each title in the property will have a deed restriction, saying it cannot come up for sale within this period of time. And so, they're going to have to come back to you for release clause releases on the 10 percent I'm allowed to sell each year, plus an application of another release on that deed restriction if I have a property where either I have a family who are my tenants who are ready to buy, and that's specific to them, so that's a unique circumstance, and we want these folks to be homeowners, they have been good tenants, or a property that I can't for some reason lease, or has some other inherent structural problem to lease it. But I would still have to come back to you to get that deed restriction released.

Ms. BURNS. Right. Sometimes, there are actually two options available to the bidders. There are joint venture arrangements where Fannie Mae will actually continue to be a partner, in which case Fannie Mae will definitely be saying yea or nay to the sales. There's also the option to buy the properties outright, just an outright sale. There are restrictions that are imposed either way, but when—

Mr. SCHWEIKERT. Let's just work on our scenario. We're a cash buyer, we buy the properties. Your ability to hold the court—

Ms. BURNS. Right, that has been—

Mr. SCHWEIKERT. —that is through a deed restriction.

Ms. BURNS. Yes.

Mr. SCHWEIKERT. So, you're going to have to have a whole mechanism process where I'm coming to you, just as if any of you have ever been in bulk sales or multi-lot sales, those things, where you do like a lien release, in this case it's a deed restriction release. And have you thought through those mechanics?

Ms. BURNS. We have certainly talked about it at length, this is one of the issues that we have talked about balancing. There are concerns on the mission-related side that these properties be held for some period of time for rental. It likely will affect pricing. It will affect pricing for all the reasons you're saying. The flexibility and the optionality to the buyer is gone. So, this, again, is a test and we'll see how it plays out.

Mr. SCHWEIKERT. Mr. Stegman, have you seen much of a regional difference in interest on the 2,500 properties so far?

Mr. STEGMAN. We are not privy to potential bidders or what is going on in the data room or anything like that.

Mr. SCHWEIKERT. All right. Ms. Burns?

Ms. BURNS. I have actually seen some information, but I don't think from what I have seen, I have seen any obvious trends—

Mr. SCHWEIKERT. So, you have seen—

Ms. BURNS. —or obvious patterns.

Mr. SCHWEIKERT. But your initial impression, I accept this is anecdotal, is sort of across-the-board, is that the interest is wide. I do want to do one, and this is me being cranky, but hopefully in a loving way. You made the comment about how we don't have lots of data from the Nation and different marketplaces, and correct me if I'm misphrasing you, on other bulk sales that have been done through private servicers or other things out there. And I will very, very aggressively disagree with you, real estate is a very public market. That's why we record it and we get lots of data. And there are actually whole newsletters and magazines every day coming to me from them, I have to find some way to unsubscribe to them, that tell me, "Hey, you know, this little package was sold and sat in California through servicer 'X,' 'Y,' and 'Z' of these 10 houses. Half of them are rented, here's their cap rate, etc." We're flooded with data on this type of situation.

Mr. STEGMAN. We have access to newsletters you're talking about, we see reports on varying cap rates. What we don't know is the effects that these sales are having on the larger market.

Mr. SCHWEIKERT. But that's easy to—

Mr. STEGMAN. And—

Mr. SCHWEIKERT. But that's absurd. You can actually then look at the market area and you see what's selling per price, per square foot, in the different subcategories. I had this out of my home office on my servers. It just—

Mr. STEGMAN. Right.

Mr. SCHWEIKERT. I'm concerned because this is a very sophisticated, very mature—

Mr. STEGMAN. Yes.

Mr. SCHWEIKERT. —very disciplined market. And my great fear as—look, this isn't your world of expertise, and it shouldn't be. But you're coming in and trying to rebuild the world that's out there, where there are thousands, tens of thousands of people who do this every day.

So, let's see, I had one or two other just sort of—how soon, let's say this is magic and everyone loves you and it just clicks off, and you're elated, how soon before you do the next sale, and how far are you willing to scale up?

Ms. BURNS. Obviously, we're going to learn a lesson from this first sale. We would like to do the next sale quickly, we have already started identifying markets and assets in the hopes that we can put forward another sale within just months of closing on this first transaction. However, we do need to see, what is the appetite for different size pools, which of these assets seem to be valued better than others? So, we have to take the opportunity to learn what we can from this first transaction.

Mr. SCHWEIKERT. How many applications do you have so far?

Ms. BURNS. For, to become—

Mr. SCHWEIKERT. To be a bidder.

Ms. BURNS. —qualified to be bidders. I don't think I'm allowed to tell you that. I'm following the SEC private placement rules for this process. But based on what you said earlier, it's fewer than you think.

Mr. SCHWEIKERT. Okay.

Ms. BURNS. You said hundreds and hundreds before; it's not hundreds and hundreds.

Mr. SCHWEIKERT. All right. And the next thing is, so, I'm hearing that you haven't really picked up a regional distribution in it, but you have qualified bidders, do you believe some of the mechanical restraints you have added, are there any things you believe that have been put in your bid requirements, that you believe are acting as pushbacks for investors to say, "Well, the heck with this, I'll just go buy on the auction steps instead?"

Ms. BURNS. I don't know yet. We're very curious to see that. I think we're very concerned that any restrictions at all could affect pricing and could affect an appetite. So, I think this is an opportunity to see.

Mr. SCHWEIKERT. In the next bidding, in the next pool package, are you also going to try to restrict it to properties that already have rental agreements underlying?

Ms. BURNS. Again, we'll have to see how this first transaction goes. We had originally planned to have only vacant in the next transaction, but given the timing of this first transaction and how long it took us to get this transaction from opening announcement through to fruition, I would be concerned, again, about having vacant properties held off market for an extended period of time.

So, we might try the next transaction with rented properties again.

Mr. SCHWEIKERT. Okay. My great fear is you're creating a sort of restraint and barrier, and the inefficiency of grabbing property that, you know, the deed has been transferred over is yours not the market's. The efficiency of saying, here's our inventory—90 days from now, we're putting it up for auction. That's an inefficiency on your side.

And the last thing, then I'll see if my friend, Mr. Schilling, has any last questions or comments, and we might move on to the next panel, is part of this passion is, I lived this housing crisis. I was the county treasurer as the world was coming to an end. So, I oversaw the real estate tax collections. I have been on all sides of this. Arizona has gotten dramatically better faster than almost anyone else, because we're cleaning out our inventories. People are finding jobs again, they're getting to be able to buy houses again. It's coming back after. And in many ways the restraint, saying, well, we don't want to put too many properties on the market, these restraints actually have taken what should have been a 3- or 4-year housing depression.

And I see what's going on in some of the mortgage States and some of the States that have had prolonged foreclosure processes, and, oh, we're going to do another moratorium. And those States, all maybe meaning well here, will be in a housing depression for a decade because of not understanding basic housing economics. And my fear is I don't want you to be one of those that, almost like back in the RTC days, if you look at the real reports that were done, we took a 3-year commercial real estate collapse and made it last almost 10 years because we trickled out the assets. And every time you sell a house, someone gets a job, whether it's making the carpet, whether it's fixing up the windows, something.

Look, if you will sell these and move them as fast, I will stand in the parade and I'll defend you from those who don't understand reality. But my great fear is by not pushing, by becoming bureaucratic and not moving these assets through, you're crushing people. You're killing their ability for their housing values to come back up for those neighborhoods to recycle. This is not our version of urban renewal, but in a weird way that's what's happening.

So, Mr. Schilling, outside of that diatribe, any other last questions?

Mr. SCHILLING. I don't have any. I would just like to—I think this could be a thing where we come in with good intentions, with some unintended consequences that make this prolonged and go further. But I just want to thank you both for coming in. And with that, I yield back.

Mr. SCHWEIKERT. The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for Members to submit written questions to these witnesses and to place their responses in the record.

This panel is now dismissed. Thank you for your time.

[Recess. Panel change.]

Mr. SCHWEIKERT. Let's go ahead and start. This is our second panel in this field hearing. You, hopefully, all heard some of the dialogue from the previous panel. What we would love is some more details of the reality of what you see happening in the marketplaces, how we both satiate genuine demand, but also through this process help bring back our housing market, and particularly in those submarkets that have been hardest hit. And is the mix of bulk sale, instead of many of those who have great concern that the retail pipeline, just because of the mechanics, is not designed to deal with both this type of product flow and all of a sudden the spikes of demand actually goes up, goes down, and this particular cycle starts to come back up. Are we doing what's necessary to have that stimulative effect in the environment around us, and is that satiating that demand? I'm going to turn to my neighbors here and see if anyone else has an opening statement. Mr. Schilling?

Mr. SCHILLING. I just want to say it's an honor to be here, and I thank you all for coming.

Mr. SCHWEIKERT. Mr. Huizenga?

Mr. HUIZENGA. I think everybody would rather hear from you than me, so let's go.

Mr. SCHWEIKERT. Our second panel consists of: Mr. Sean Dobson, CEO of Amherst Holdings; Mr. Rob Grossinger, vice president of community revitalization for Enterprise Community Partners, Inc.; Ms. Mary Kenney, executive director of the Illinois Housing Development Authority; and Mr. Dick Pruess, CEO of the Community Associations Institute.

Mr. Dobson, we will begin with you. You are recognized for 5 minutes.

STATEMENT OF SEAN DOBSON, CHIEF EXECUTIVE OFFICER, AMHERST HOLDINGS

Mr. DOBSON. Great. Thank you. Mr. Chairman and members of the subcommittee, thank you for your invitation to testify today. My name is Sean Dobson, and I am the CEO of Amherst Holdings. Amherst Holdings consists of several Enterprises, all of which support institutional investors and various portions of U.S. real estate demands markets.

My partners and I have been a part of the housing finance infrastructure of the United States for over 25 years. I want to point out that, although we are a dedicated real estate finance platform, Amherst demurred on the opportunity to originate and underwrite subprime Alt-A pay option mortgages and their residential mortgage-backed securities (RMBS) and collateralized debt obligations (CDO) progeny.

I am here to discuss our views of the U.S. housing markets and how we view the costs and benefits of properly managed bulk sale transactions. Last year, over one million homes were lost to foreclosure; these homes were liquidated through a legacy process targeting owner/occupant buyers. Unfortunately, the bursting of the housing bubble and the subsequent retraction of credit availability left very few qualified perspective owner/occupant buyers. As is to be expected, these conditions mean that the majority of foreclosed homes are already being sold to investors. We believe that a well-designed bulk sales program will have little upfront costs and have a very large and positive impact. I would like to start to talk about these benefits from the ground up, and then we'll talk about the upfront costs.

As you likely know, the GSEs currently own thousands of homes that were foreclosed upon with a tenant in place, tenant-occupied. In these cases, a borrower defaulted on a mortgage after leasing the property to a tenant family. If these homes are liquidated via the current process, the leases will not be renewed. The families will be asked to move, and the homes will be sold, primarily to investors. The Fannie Mae pilot program for bulk sales are these tenant-occupied homes. If a long-term investor purchases these home through a bulk sale, many of the tenants will be able to stay in place. By simply short-circuiting the process, we accomplish simple things. Children stay in their schools, neighborhoods are maintained, and lives are not disrupted.

At Amherst, we purchased the only auction of these types of homes ever conducted by Fannie Mae. We were able to maintain one-half of the occupants in their residence. If a successful market for occupied homes is established, this type of benefit could also accrue to owner/occupants nearing foreclosure.

Another first order benefit of a bulk disposition program is the increase in speed at which housing is returned back into the market. In the previous panel you heard a lot of discussion about the inflation, rents, and the tightness of the rent markets. It's important to understand that even though we have not recovered the jobs lost in the recession, vacancies are dropping and rents are rising. This is a symbol of a very tight market, and is putting pressure on families.

Beyond these first-order benefits, we think a series of bulk sales will have a direct and positive impact on home prices. Currently, the investor base purchasing homes is highly fragmented and, as a consequence, experiences a high cost of capital relative to the overall market. In other words, investment housing is a cottage industry and has very little access to the equity or debt capital markets. The key to decreasing capital cost, and thereby increasing home prices back to some semblance of fair value is standardizing the single-family leasing industry and creating a smooth capital transfer mechanism.

The depths of the mortgage problem can be measured in several ways. The Nation's REO inventory sits at around 400,000 units, yet this is but the tip of the proverbial iceberg. Our data shows over 3.3 million mortgages with underlying real estate value around $430 billion have not received a payment in over 12 consecutive months. Behind that mountain of real estate lies another six-plus million units that are either delinquent or are so deeply credit-impaired that they are hanging by a thread. When you contrast these horrific numbers to the 85,000 units of REO being sold each month, you realize that either the pace of liquidations has to increase, which under the current model could drive home prices even lower, or this backlog will stand as a threat to the economy for at least another 4 years.

Because of the Fannie Mae pilot programs, we and others have embarked on building the appropriate platform to shepherd the necessary capital to the market. Until now, a mechanism for this purpose has not existed. The work we and others are doing could very well change the conversation around housing and create a backstop for home prices.

It's worth adding that without this infrastructure to pass capital from the markets to housing, the Federal Reserve's dramatic monetary policy efforts are pretty much in vain. It does not matter how low bond rates go or how many mortgages the Federal Reserve buys, if the credit and capital transmission system is insufficient.

In summary, institutional capital allocated to single-family rental housing can ease trauma to current residents, increase availability and quality of new housing, produce a significant increase in home prices, and remove the fear surrounding the backlog of unresolved defaulted mortgage loans.

Naturally, the question will arise, at what cost? It's a controversial statement, but it may indeed not cost a thing. There is significant discussion about the level of price discount required to attract bulk buyers. We believe any discount achieved early on will be short-lived as capital costs fall, and will be minimal compared to the single asset strategy once all transaction costs are accounted for. Even if there are small costs to priming the pump with the first transactions, the price of the next 400 billion sales should be much higher, and as capital forms around the asset the confidence builds. No matter what your position is in this debate, it's hard to argue that the status quo is acceptable. The backlog of unresolved default mortgages hangs as a pall over the U.S. economy. The lack of credit, lack of confidence, and the continual threat of a tsunami of distressed sales have conspired to undermine housing and prevent the sectors normal contribution to the overall economic activity and job growth. We believe bulk sales attract new source of capital to housing and will alleviate these fears and potentially unlock housing, allowing it to once again contribute to job growth and economic activity.

Thank you for the opportunity to testify.

[The prepared statement of Mr. Dobson can be found on page 50 of the appendix.]

Mr. SCHWEIKERT. Mr. Grossinger?

STATEMENT OF ROB GROSSINGER, VICE PRESIDENT, COMMUNITY REVITALIZATION, ENTERPRISE COMMUNITY PARTNERS, INC.

Mr. GROSSINGER. Thank you. And thank you, Mr. Chairman, and members of the subcommittee for the invitation to testify. My name is Bob Grossinger with Enterprise Community Partners. We are a national nonprofit that has been in the arena of financing affordable rental housing for the past 30 years. We have provided upwards of $11 billion in equity, and helped to finance over 300,000 rental units throughout the country.

But prior to this job, and somewhat relevant to this testimony, I was originally with the LaSalle Bank here in Chicago, and then acquired by Bank of America. And my first assignment with Bank of America was to go out to California and work with—on the Countrywide transition, dealing with, what are we going to do with all of these assets? So, for a fun 3 years—

Mr. SCHWEIKERT. Forgive me for interrupting. When does your book come out?

Mr. GROSSINGER. I'm not sure; I think I'm blocking out most of the experience.

But, what was interesting during those 3 years was to look at a system, as has been previously testified, that was ill-equipped to deal with what we have now. And when we talked earlier, Congressman Schilling mentioned who was at fault. I guess I was, because I was working with Countrywide and that was one of the biggest fault producers that was out there. So, to some extent, I saw an evil and I was part of it.

I do want to also state that I appreciate what FHFA did, and Meg Burns, in bringing together some of the large national nonprofits along with some of the for-profit equity funds that are looking to get into this space, to talk about this bulk sale opportunity, the pilot, and what may happen after that. We had a number of very good discussions in Washington, as Ms. Burns stated, and the national nonprofits that were at the table did indicate that we didn't see the value of any sort of forced marriages between nonprofits and for-profits. We think that has to happen organically.

But, I will say that the best part of those two sets of meetings in Washington was a marriage that we have been able to make with a private equity fund, to look at doing things together in three markets around the country. And when you talk about that marriage, along with what I think is the most important part of this discussion, you have to look at this issue as it happens at the ground level. And as I think all of you know, at the ground level it's all about location, location, location. What happens in Maricopa County in Arizona is very different than what's going to happen on the south side of Chicago or in Cleveland or in Detroit or in Atlanta. And even within Atlanta, there are different markets, and there are micro markets in each.

So, our goal, and the purpose, if I get nothing else across in this testimony, is that we're not interested in trying to direct, hamstring, put shackles on private equity as it looks at the markets it wants to look at, but there are many markets it just doesn't want to look at. And what we found in our relationship now with this private equity firm, is we have done some controlling, some education, some bringing capital that we have to the table, to get them to look at markets that they were skipping over. They just were not economical to them, they didn't understand them at the micro market level. So, their data analysis was done at the city level, but within that city, there were many micro markets that could be helped, that could still be saved.

And so what we did, is we literally put them in a van and took them on a tour and showed them, with city officials from this particular city, these particular neighborhoods, and now all of a sudden, they want to do business there and they want to do it with us, so we're forming our own fund, the two of us, we'll form a limited liability corporation and we'll start buying REOs in those neighborhoods, that before our partnership they wouldn't enter. So, it's how do you, from a nonprofit standpoint, it's both, how do we partner effectively without a shotgun wedding, and, also, how do we target those neighborhoods the private equity is simply going to skip.

I think your motto in Arizona, Congressman, what you have been doing is a great example of when you maximize private capital with a demand, and be able to produce, I think you said over a thousand properties that you have been able to take under management and rent. However, when I look at bulk sales, my big fear is that the losers get, politely said, chucked away.

In all of our interviews with private equity funds over the last few months, ones that have been in existence for a while and the ones that are forming now, and there if you added up all the numbers that you have read in The Wall Street Journal or in Bloomberg's, it's $5 billion to $7 billion of equity that has been forming for this. What we found is that when they buy in bulk, the bottom 20 percent of the assets that they don't want, they tend to walk away from.

That may change as the new—as these new formations happen. We want to make sure that it doesn't happen, that you don't look at certain neighborhoods and say, okay, I got a good deal by buying 100 properties, and 20 of them I was able to work with the homeowner to save them. These are note purchases. If you look at REO purchases, I could sell 20 of them above market, I can sell 20 of them—and you go down that waterfall. But when you get to the bottom 20, you know what, these are going to cost me $90,000 to rehab. I'm going to walk away.

So, I would just ask that in any next set of bulk transactions, we look at monitoring so that walk-aways are taken care of. We look at whether there's going to be financing available from the GSEs, that sort of team.

And last but not least, I'm going to—I was going to talk about this, but I'm going to refer to Mary Kenney to talk a little bit about the mortgage resolution fund we have created with her leadership here in Illinois, to purchase notes to save homeowners.

[The prepared statement of Mr. Grossinger can be found on page 58 of the appendix.]

Mr. SCHWEIKERT. Thank you so kindly. And what a fine intro.

Ms. Kenney?

STATEMENT OF MARY R. KENNEY, EXECUTIVE DIRECTOR, ILLINOIS HOUSING DEVELOPMENT AUTHORITY (IHDA)

Ms. KENNEY. Thank you, Mr. Chairman, and members of the subcommittee. My name is Mary Kenney, and I am the executive director of the Illinois Housing Development Authority. Like most HFAs, IHDA started out as a bonding authority. It was created in 1967, and at that time had just a dozen employees and very few assets. Today, it's an agency that has more than 260 employees and $2.5 billion in assets.

Since 1967, we have financed more than 200 units of affordable rental housing, comprising nearly 1,800 developments in every county in the State. And we do so in partnership with the private sector, acting as a lender, selling tax-exempt bonds and other mortgage-backed securities in the capital markets to finance our mortgages.

In addition to our multifamily business, we operate an affordable homeownership lending program, a program which has struggled in recent years. As the mortgage market accelerated and exotic loan products became the norm, our program, which provided just a 30-year fixed rate, really couldn't compete. Despite pressure from Wall Street to change our marketing practices in order to boost originations, we held firm to our model, and the program all but shut down in 2007. Today, the program is again thriving, providing needed liquidity to a market that sorely needs it. And, our originations have gone from zero in 2009, to an expected $250 million this year.

For the last several years, our work, as yours, has taken place against the backdrop of the foreclosure crisis that has shaken our housing industry to its core. The crisis has been particularly acute in Illinois. And as a result, my agency has focused its full attention on how to help homeowners and communities within our State.

We have launched two programs to help combat the rising tide of foreclosures, and several new programs aimed at reducing the number of vacant properties within our neighborhoods. We believe that the GSEs can play a necessary and important role in assisting our work in both of these areas. And I'll direct my comments to the REO-to-Rental later in the context of the work that we have been doing.

Illinois was lucky enough to be one of the 18 States—or unlucky, depending on how you look at it—selected to receive Hardest Hit Funds from the U.S. Treasury. In September of last year, we launched a program, and to date we have helped more than 2,200 Illinois homeowners keep their home, and we continue to provide assistance to new households at a rate of about 20 per day. I am very proud to say that Illinois now has the second highest program in the country, second only to California, which has triple the resources and employees.

In addition to our work on HHF, as Mr. Grossinger mentioned, the State has partnered with a number of entities from the private sector, including Enterprise, on a very innovative program utilizing some of our HHF funds. We set aside $100 million in Hardest Hit Funds to create the Mortgage Resolution Fund Program.

In simple terms, the program aims to keep families in their homes by utilizing the funds to purchase delinquent mortgages at a discount, and then leveraging that discount to permanently modify the mortgages of qualifying households to an affordable level. The program is the first of its kind and is the only program in the Nation that utilizes the current reduced market value of the property to the benefit of the homeowner so that they can stay in their home.

Over 100,000 new foreclosures were filed in Illinois last year, and we believe that stopping the flow of new REOs is the best and most cost-effective approach to combating the plague of vacant properties in our community.

I believe that the GSEs have an important role to play in this regard. To date, all of the loan purchases have been made through the private sector. In order to work more efficiently and to bring the program to scale, we believe that the GSEs must participate by selling pieces of their portfolio at the current market rate.

IDHA is also helping communities struggling with the aftermath of foreclosures, working to alleviate the huge inventory of vacant properties. IDHA received a total of $58 million under the Federal Neighborhood Stabilization Program, and through this program IDHA has committed resources to redevelop over 450 vacant foreclosed and abandoned properties. We are now leveraging these investments through an innovative new State program.

In February of this year, Governor Quinn launched his own program, known as the Illinois Building Blocks Pilot Program. Building Blocks is a multifaceted and comprehensive approach designed to help communities and their residents along every phase of the foreclosure continuum. The program employes a three-pronged approach. First, it aggressively targets existing resources to struggling homeowners. Second, it provides direct financing to developers willing to acquire and rehabilitate vacant homes. And, finally, the program provides a robust and aggressive homebuyer financing package, including a $10,000 downpayment assistance for homeowners willing to purchase a vacant property within 6 of the selected communities. The goal is to stop the flow of new vacant properties and to restore existing vacant properties to productive use.

One important way the GSEs can help States address the vacant properties is by assembling available properties by ZIP code and making them available for purchase at a reduced rate through governmental entities that agree to assist in financing their acquisition and rehabilitation by private entities. This would allow States to address large lots of vacant properties in their communities in a way that is consistent with local planning and will have a real impact.

While we are excited that Chicago has been chosen as one of the pilot communities for the REO-to-Rental, we had the following observations. A scattered approach will not be effective. Our understanding is that there are currently 99 properties in the Chicago region, scattered throughout the region. This is not enough to provide a critical mass, will be difficult to manage by the investor, and will likely have no effect on any given neighborhood. A local and leveraged approach is optimal to best serve the public interest and stretch the taxpayer's dollar to maximum effect. While minimizing losses to the GSEs is the ultimate goal, it should be balanced against the needs of our communities and stabilizing property values to all our citizens.

Finally, I wanted to make one note to the committee on a slightly separate but related topic. And that is, there has been a bill that has been submitted to the Congress on two occasions related to a Ginnie Mae wrap for the FHA Risk Share Program, and I think that all of the vacant properties in our communities stand evidence to the tremendous need for affordable family rental housing. The bill that was proposed would provide a Ginnie Mae wrap to the existing Risk Share Program that the HFAs administer. And it actually has—CBO found that it would save the Federal Government $20 million over 10 years, so there is no net cost to the budget. It also would not expand the Federal Government's role in housing. I would be happy to elaborate on that for you.

[The prepared statement of Ms. Kenney can be found on page 68 of the appendix.]

Mr. SCHWEIKERT. And we'll beg you to send us a copy. I know we're a little over time.

Ms. KENNEY. Sorry.

Mr. SCHWEIKERT. Mr. Pruess?

STATEMENT OF DICK PRUESS, ON BEHALF OF COMMUNITY ASSOCIATIONS INSTITUTE (CAI)

Mr. PRUESS. Mr. Chairman, members of the subcommittee, my name is Dick Pruess, and I live in the Castlegate Homeowner's Association in Pasadena, California. Thank you for the invitation to testify this morning on behalf of Community Associations Institute.

CAI is the only national organization dedicated to supporting community associations and association homeowners. There are approximately 62 million residents living in 315,000 associations across the Nation. Community associations are more commonly known as homeowner or condominium associations. Our homeowners are facing a crisis, and I believe taking into consideration a unique perspective of community associations will help the Federal Housing Finance Agency with its REO pilot program.

I recommend that FHA take at least three actions to help homeowners living in community associations. First, FHFA should make sure outstanding liens and arrearages on the property are satisfied prior to sale. It seems to me as an owner in a community association, where about 25 percent of the taxpaying owners in the country reside, and in California it's over 33 percent, that these packages of homes cannot be sold to investors in good conscience if the issue of unpaid back assessments and arrearages have not been cleared up.

Second, FHFA can make sure that servicers are foreclosing and reporting a change in title in a timely manner. Completing the foreclosure process for loans that cannot be modified, and recording a change in title, will improve outcomes for both the GSEs and community associations. When the foreclosure process breaks down, assessments go unpaid for longer periods of time, more services have to be curtailed by the associations, and the resulting lack of maintenance and repairs can lead to declining property values.

Third, FHFA must ensure that investor purchasers will understand community associations and the obligations of owning property in an association. Given the unique aspects of property ownership in a community association, CAI urges that potential investors be required to demonstrate experience in managing property located in a community association. If the investor doesn't have association experience, I believe it is appropriate to ask how they will acquire this expertise. We need responsible investor/owners in our communities. Investor ownership in neighborhoods that are designed for owner occupancy can be a source of frustration if the investor/owner does not take their responsibility seriously. Timely payment of assessments on properties by the investor directly into the association during their rental period or until sold to a third party is imperative. Reserving, protecting, maintaining, and insuring properties will be required by the association. Investors should understand that associations will want to have a copy of the lease on file and will need a single point of contact to resolve any outstanding matters. Investors should expect associations to be interested in the restoration of neglected properties.

I will finish with a few observations. Lenders and servicers have failed to adequately preserve and protect their collateral before, during, and after foreclosure. Lending institutions that have not foreclosed on hopelessly delinquent owners have caused harm to community associations. Some of these owners stay in the property and pay neither a mortgage nor their assessments. Take my own association as an example. My small 48-unit association is professionally managed with educated and trained board members. We have had three foreclosures on two units, two short sales, and one delinquent owner still living in their unit. The accounts receivables of my association now exceed 60 percent of our annual operating budget. Expressed differently, our unpaid assessments total in excess of the amount one unit would owe over the course of 15 years. This shortfall is due solely to these six properties. The monthly assessments for all owners has been raised in the past 2 years by 15 percent annually. Almost 75 percent of that increase is due to the nonpaying owners. The other owners in the association, including myself, have shared $54,000 in higher housing costs in the past year-and-a-half as a result. A number of our owners are on fixed incomes. One more assessment increase and some of my neighbors, who have specifically told me this, will have to sell or move out and rent their unit. They won't be able to pay their mortgage and assessment combined. We need a way to resolve problems like these in Enterprise and REO, and community associations will be eligible for this program.

I believe implementing the policies I have recommended will improve returns for the Enterprises and provide some equitable treatment for the homeowners who have shouldered the financial burden of maintaining these properties. This is a critical issue for community associations and CAI members will continue to work as partners with the Federal Government to ensure the program's success. Thank you.

[The prepared statement of Mr. Pruess can be found on page 80 of the appendix.]

Mr. SCHWEIKERT. Mr. Pruess, thank you so very much.

Mr. Huizenga?

Mr. HUIZENGA. Mr. Chairman, I appreciate this, and as I think I had explained, I need to duck out for a flight. I got stuck with the earlier not-so-good flight that my colleagues who had the foresight to make sure that they didn't come home earlier than I did.

Mr. SCHWEIKERT. It's clean living.

Mr. HUIZENGA. Is it? Okay. You Arizona guys, I tell you. Anyway, quickly, Mr. Dobson, and probably Ms. Kenney, directed to you, too, but I hear consensus on the panel, and anyone who has addressed this, that we need to move these inventories through and out of GSEs. Okay, you're both nodding. What I was hearing, though, is your concern, Ms. Kenney, is that, I think it was 99 properties that you suspect are available here in the Chicagoland area.

Obviously, that was going to be one of my questions, where exactly? Because that's very different whether it's Amherst to North Shore to wherever they're gonna be. Whatever. Those are different areas and you seem to be calling for an intermediary; right, is that—

Ms. KENNEY. Absolutely. I think that there needs to be a localized approach. And I actually think that the State HFAs offer a perfect opportunity for that. My agency in turn is partnering with six local communities. And you're right, it's a distinct need in different communities, and I really question the ability of an outside investor that is just strictly profit-oriented to come in and manage 99 properties that we're told are scattered throughout the city.

Mr. HUIZENGA. So, Mr. Dobson, as one of those profit-driven—

Mr. DOBSON. Yes, it beckons.

Mr. HUIZENGA. —companies that it's going to come in first.

Mr. DOBSON. Sure.

Mr. HUIZENGA. Do we need that intermediary, do we need to have that or not?

Mr. DOBSON. I think it's—from our perspective, it's important to understand that there's a robust asset management infrastructure that exists in the United States today for this purpose. So, no one is—our business didn't say no one, our business plan is not to try to make those consumer-facing decisions at a central location. It's to engage local property managers. In the pre-purchase diligence states, to understand prepared budgets marketability, written equivalence, as well as to deal with consumers loan basis. So, as this mechanism is scaled up, that might be an opportunity for our company to expand into its own branches. But in the early phases, this is very much a hands-on, one-at-a-time asset. And it's worth noting that we didn't get into this crisis by any other way than producing one bad mortgage at a time. And we're not going to get out until we renovate and rehabilitate and produce and construct a producing asset one at a time.

Mr. HUIZENGA. So, do we or don't we need to have this?

Mr. DOBSON. Our plan, we have been buying homes, our plan is to do it with the existing local for-profit asset managers. Housing is a very diverse asset class, so it doesn't mean that there's not a place for nonprofits, there's not a place for house advantage agencies, in certain segments of the market I'm sure that it will increase efficiency in certain sectors.

Mr. HUIZENGA. So, it's not ringing hollow; right?

Mr. DOBSON. No, it's not ringing hollow.

Mr. HUIZENGA. Yes.

Mr. DOBSON. It's not ringing hollow, but that level of expertise is needed and it's available.

Mr. HUIZENGA. Okay. I appreciate that. And with that, I yield back, thank you.

Mr. SCHWEIKERT. And, thank you, Mr. Huizenga. And fly safe.

Mr. HUIZENGA. See you back in D.C.

Mr. SCHWEIKERT. Mr. Schilling?

Mr. SCHILLING. Very good. I just want to thank the panel again. Ms. Kenney, you had indicated that there was going to be, or I think they are doing it already, the $10,000 payment, $10,000 downpayment assistance. Have you guys done studies, for example, of showing, because I know that where you're trying to go is the end game of trying to get those things back up and running, somebody is in there living in them, of course. But have you done a study of the investment back on that $10,000, and then, like somebody stayed in the house for a specific period of time?

Ms. KENNEY. My agency offers a myriad of downpayment assistance, and did even prior to the crisis. And we did not see higher delinquency levels within that portfolio. Our portfolio was really affected, like everyone's, I think. We obviously did no subprime, I testified to that. But we saw, actually, we had very low rates in delinquency, probably through 2009 and into 2010, like 1 or 2 percent in our portfolio. And it was only the unemployment that really triggered that. So, we do have some historical experience with that. And I should note that I only have 5 minutes, but it's a very specialized program. And the communities are very much involved, and we have pre- and post-purchase counseling that's associated. The homeowner is actually connected to a counselor through that process, as well. So, it's something that—it's obviously part of a pilot program that was launched by the Governor, but that we're going to monitor very closely. So, we had probably 12 reservations under the program, and it's been for like 30 days. I think early signs are that it has provided some incentive. Vacant homes don't sell; they don't show as well. So, it has provided some incentive for people to take a second look at these vacant properties.

Mr. SCHILLING. Very good. One of the things—I was born and raised in the west end of Rock Island, where there's a lot of houses that I have seen them put well over $100,000 into these houses, and the market value there is $40,000 to $50,000. Sometimes we're better off to kind of just level those, some of the houses that are out there, rather than to continue to rebuild those. But anybody can answer this one, I guess. Do you believe that the pilot program will be successful? Mr. Dobson?

Mr. DOBSON. I believe it will. I think that there's significant investor interest. And I think that it will help allay some of these fears about the complexity of the prepurchase diligence and the operations.

Mr. SCHILLING. Okay. How do we judge success?

Mr. DOBSON. The ultimate judge will be the improved home prices, and consumer confidence around housing, and building and economic activity. And I don't think that this is some lofty 10-year measure, this is something you'll see rather quickly. Home prices usually react favorably to a net lower cost accounting.

Mr. SCHILLING. I do agree. We have to figure out some way to get a floor on all this so that we can get our market back up and rolling. And then if it is successful, however we measure success, which I think you'll probably be able to get a pretty good idea, should we expand into other localities across-the-board?

Mr. DOBSON. I think we should. I think this is a cross section of every market. This isn't a geographically focused issue. This is a— There's a point in time when investor—when consumer base simply doesn't qualify for mortgage in the volume that's needed to absorb this real estate. So, as this program should expand, it should probably be more focused on the kinds of assets that are involved, the price points and some assets that vary in cost and care, like economy and some things. But I think it absolutely should be expanded, and where institutional investors can compete with private, with individual investors, then they should be allowed to compete.

Mr. SCHILLING. Very good. I'm kind of torn, because both of these, I like the idea because it still gives some of the most vulnerable, with what Governor Quinn is doing, with helping out, but at the same time, we're helping put that floor down. And so, I'm going to go ahead and yield back.

Mr. SCHWEIKERT. Thank you, Mr. Schilling. Now it's my turn. Sorry, this is one of the most important subjects in my world. Do

I still have someone from the GSEs in the back listening? All right. In that case, we're going to have to send a note.

Mr. Pruess, one of the single, biggest complaints I have in my congressional district office back in Scottsdale, is we have lots of "A" choice, and I had very close relationships, I have been the county treasurer and helping them with their common areas and those things, is coming in and saying, we have a house—the folks have been under foreclosure for 3 years, 2 years, they haven't paid an HOA payment in that time, why won't they do the foreclosure? We need to start having them pay their fair share, because everyone else now is having to cover the lack of their HOA costs. In California, like in Arizona, when there's a foreclosure it severs any of the HOA liens you have placed on the property; is that also true in California?

Mr. PRUESS. It's true if it's a trustee sale or the foreclosure itself goes through. If it goes to a short sale, then generally what happens is the lending institution will negotiate with the board. If the bank takes its percentage of the money which they wanted, and it's agreed to, then they're asking the association to give a like percentage.

Mr. SCHWEIKERT. So, in your particular case, when they take forever, or an elongated period of time to finally pull the trigger and execute the foreclosure—

Mr. PRUESS. We're trying to get a paying owner in the building. That's the biggest problem.

Mr. SCHWEIKERT. And this is one of those unintended consequences. I have a couple of HOAs, actually, one in central Scottsdale, it's been there for many years, that literally is in major, major trouble because everything that goes up for sale sells, but they have a handful of properties that have been under foreclosure and they're both within—the GSE is waiting to pull the trigger to do the foreclosure. And they're going on, I think, 2, 2½ years now, for some, and we can't get an answer why they won't do the foreclosure.

Mr. PRUESS. Those 15 years I mentioned, we have one owner who is still living in his building, in his unit. He bought his place for $500 down, which is—it's a crime, but people were allowed to take out loans like that. He wasn't qualified; he was a musician.

Mr. SCHWEIKERT. But I guess the point I was trying to go to, and seeing if you agree, is sometimes the inaction from the GSEs, or whoever, whoever the servicer is, because in some ways we blame the GSEs, but reality is something in the servicing process, so I always have to be a little careful to blame those in the process. They don't understand the unintended consequences of what they do, also, to the rest of the neighborhood, let alone the HOA.

Mr. Grossinger, you made the comment about—now, I understand your experience was also in buying impaired paper, and having been around part of that business, yes?

Mr. GROSSINGER. Yes.

Mr. SCHWEIKERT. You have that 20 percent of the paper that's unsavable. That you just say, write it off. But when you're buying hard asset, hard real estate asset, a handful of you cannot walk away from a handful of houses that devastates the cap rate. Would you then agree, though, that if they're going to do the bulk sale, then they need to make a mechanic where those properties that are the problem actually need additional love and attention, or they need to be major rebuilt, that there needs to be a very simplified process, that if you and I went out and bought 100 houses, we have these 6 over here that are scattered and they have problems, that we need to be able to sell them to the family or the individual or another investor who is willing to rehab them, do whatever with them.

Mr. GROSSINGER. I think also, and all of my knowledge in this area comes from the interviews we did with the private equity firms as we were both setting up the Mortgage Resolution Fund with the Illinois Housing Development Authority, but also as we now have entered into this partnership with the private equity fund to do what we think is important, in those markets that we think the private sector will ignore or not just—

Mr. SCHWEIKERT. But you agree that there needs to be at least a clean process to sell the brain-damaged properties?

Mr. GROSSINGER. I think it's actually more than that. I think if we had either—and Mary called it an intermediary, you could call it a partnership without any sort of legal partnership, if you understood that those six problem children, some of them may need demolition. When a bulk sale is offered up, there are going to be winners, there are going to be moderate winners, and there are going to be losers. We just want to make sure that the losers aren't being ignored. And so, if there's a different disposition strategy than a hold and rent for a period of time, if demolition is the right disposition strategy, if it needs a little more activity to sell to a homeowner, I think any of those should be—

Mr. SCHWEIKERT. But wouldn't it be natural economics to say, hey, if I'm paying property tax on the improvement of this property, and there's no way I'm going to rent it, and my rehab costs, and I can't get my rate of return, we run the tractor through it so at least I minimize my property tax exposure. Isn't there some basic law of economics that's going to help me—

Mr. GROSSINGER. That's exactly what I was saying. There are many, many properties for which the outcome shouldn't necessarily be predetermined. There should be some way for the bulk buyer to be able to come back and say, here are the economics on this particular house. There is no way in this the neighborhood, I would have to put $100,000 into this property and I would get $400 a month rent. Look at the number of vacant properties, let me demolish it. There should be some conversation along those lines. But it needs to be a conversation, not a fiat.

Mr. SCHWEIKERT. I think you and I are pretty much saying the same thing. I think actually it also happens just from rational economics. In our world, every time we—our average was for every 100 houses we bought, we had 1 or 2 that we had to get off our books. There was no way I could afford to re-pipe the house or this and that. But I always had other people lined up. And often, we would take little hits on them, but we got them off our books because we had to cover our costs. We actually even had one that we made a deal and sold under our cost to one, the nonprofit church-based housing groups in our—in a neighborhood because they wanted it and I didn't. So, I'm hopeful that there are actually some rational economics that also make that happen.

Mr. GROSSINGER. There has to be some decent discussion on it. There are some national entities being formed between some of us national nonprofits. To be able to take those lowest of low-value properties and do something, there are land banks being informed.

Mr. SCHWEIKERT. Good.

Mr. GROSSINGER. But the conversation has to take place.

Mr. SCHWEIKERT. The land banks almost become sort of—it's something that stands on its own. I found on some of the small properties I would find, a little—a family would come to me and say, look, we're going to do it. And that was their—Ms. Kenney, right now in Illinois, if today I receive my notice of foreclosure, and this is a judicial mortgage State; correct?

Ms. KENNEY. It is.

Mr. SCHWEIKERT. What would the mean time be for that foreclosure to be executed or the investor's property rights in that loan instrument to be executed?

Ms. KENNEY. It depends on where in the State it's filed. In Cook County, it's particularly long. There's a foreclosure mediation program that I think is pretty—

Mr. SCHWEIKERT. In Cook—let's take the worst-case scenario.

Ms. KENNEY. 18 to 24 months, probably.

Mr. SCHWEIKERT. Okay. So, 24 months, which is actually better than I thought it would be. Two years?

Ms. KENNEY. Yes, I would say that's right.

Mr. SCHWEIKERT. Because of that type of mechanic, should Illinois lenders require higher interest rates because there's an additional risk premium because of the legal process here?

Ms. KENNEY. I'm sure it's something that lenders will start to look at. I don't think that people ever anticipated the prices as they exist today. And part of the delay was caused by lenders. And Bank of America seized foreclosures in October of 2010. No offense.

Mr. GROSSINGER. None taken.

Ms. KENNEY. October of 2010, and I think just started resuming a portion of the foreclosures just in January of this year. So, it wasn't all imposed by the process, per se. But I think that you make a fair point. I think that the economics of it are such that Illinois will start to look at those issues. And Illinois is not the only State with that issue, obviously.

Mr. SCHWEIKERT. And two last ones. Mr. Grossman, you also made the comment about Maricopa County, but if you and I would step back to, yes, let's go 3, 3½ years, people thought people like me were insane for going out and buying property, after property, after property, because Maricopa County is never coming back, there are huge numbers of houses, we're so overbuilt. You have a decade of inventory. Now, we look smart. But would you be willing to debate me just a little bit, is in the deed of trust State, some of these States that had—I'll use a more aggressive deed of trust, foreclosure mechanics, that by moving inventory actually helped a stimulative effect, but also got rid of—I used to have a housing professor who said, "We all grow up here, the world moves in supply and demand, and in housing it doesn't. In housing, it's anticipation of supply and demand." And if I'm always anticipating another wave of foreclosures, it—yes, it's neat because I get to control the timer—that actually that's one of the great sins in many of the marketplaces around the country, is they're not doing those things to mitigate the anticipation of the future supply.

Mr. GROSSINGER. I think if you go back historically to the protection of individual property rights, and some States took that more seriously and put in more protections and more protections, and longer redemption periods and more protections. I do think here in Cook County there is—the recent recognition is really devastating when it comes to vacant properties. And so, for Cook—there is a bill in Springfield right now to create a fast track foreclosure process for vacant properties. One particular servicer has negotiated with the chief judge of Cook County to do fast track foreclosures on vacant properties. I will give you one statistic.

Mr. SCHWEIKERT. And if you come across that article, I would love to see that, because I appreciate that information.

Mr. GROSSINGER. Sure. Bank of America, my former employer, right now has 1,800 vacant properties within the City limits of Chicago; 90 percent of those are pre-foreclosure. So, they can't do anything with them even if they wanted to. We're trying to work with them to change the judicial foreclosure process for those vacant homes. And in that regard, as a former legal aid lawyer, I can step back and say, I don't have to worry about individual property rights to the homeowner, because there isn't anyone living there.

Mr. SCHWEIKERT. But in many ways, you're also speaking to the HOA problem.

Mr. PRUESS. I will give you some quick statistics in—but we're a nonjudicial State in California. From date of notice of default until date of sale, it's 311 days, is the average today in California. And because of rules out there, over 60 percent of the units that go to sale on the courtroom steps, go back to the bank. They have so many rules that you can cancel them for, that it would go back to the bank. It's only roughly 10 to 11 percent of the units that get sold to a third party, which is usually an investor. And the investor's time, then, to sell, it runs, I believe it's something like 134 days. If the bank takes it back and they go to resell it again, their time is 184 days. So, if you add the 3 of them together, and they finally sell it to the investor the second time around, and the investor sells it, you're looking at just under 2 years of time.

Mr. SCHWEIKERT. But the moment the foreclosure happens, the—in your case the HOA fees are attached to the property, whether it is owned by the bank or an investor.

Mr. PRUESS. Not—

Mr. SCHWEIKERT. No, they would have—they run with the—

Mr. PRUESS. But then it's the—

Mr. SCHWEIKERT. The foreclosure is the severing instrument. And once—I'm the bank and I own it, I have taken—it's REO property, I owe you the HOA.

Mr. PRUESS. That's what the law says. And I hope you have been able—had a chance to look through these pie charts that are back here, because you'll see how bad these banks have been performing—

Mr. SCHWEIKERT. But the banks—

Mr. PRUESS. —on doing what they're supposed to.

Mr. SCHWEIKERT. So, you're saying, but the banks owe it, but they're not paying.

Mr. PRUESS. They're not paying.

Mr. SCHWEIKERT. Okay. That's a—one off issue.

Mr. PRUESS. And I know that—the State and Federal level, that they are performing. But they're not performing. They are not performing.

Mr. SCHWEIKERT. Because the foreclosure is the severing activity.

Mr. PRUESS. I have had the privilege of meeting Mr. Manzullo in a unit that he was trying to buy in Pasadena. And I have two Countrywide homes owned by Bank of America, so—

Mr. SCHWEIKERT. We can have some side stories.

I'm going to let Mr. Schilling—he had a couple more questions, and then I want to finish with one or two for Mr. Dobson, and then we'll let you go back and dance in the rain.

Mr. Schilling?

Mr. SCHILLING. Very good. I think this one could go to my Hawkeye friend here. Do you believe that investors are willing to partner with the local community-based organizations to help to stabilize and improve the market conditions?

Mr. GROSSINGER. Some are, some aren't. I think—I remember Meg Burns said something like they're looking for investors who want to be profitable yet civic minded. And I'm not sure what that means, but in my conversations and travels, I think there are a number of private equity funds out there that recognize that there's value added by partnering with organizations that understand things at the block-by-block level. Because real estate in cities like Chicago can change dramatically within a three-block radius. So, I do, I think there's enough out there to make it. Where those partnerships are going to work, it's going to be very successful. And it doesn't have to be—what we're doing with our newfound partner is an actual economic partnership where we're building a fund together and we'll act in a 50/50 partnership. It doesn't have to be that. But in an advisory capacity, or in some form taking the skills the nonprofit brings to bear, the HFAs bring to bear, only makes the business model better, to be honest.

Mr. SCHILLING. Very good. And then, where do investors expect to obtain financing for these purchases? I guess anybody could answer that.

Mr. GROSSINGER. Oh, it's all the silly money that's floating around in this country. Billions and billions of dollars is looking for a better return than in a CD.

Mr. SCHILLING. That's not hard to do.

Mr. GROSSINGER. No.

Mr. SCHILLING. Okay. With that, I yield back.

Thank you, sir.

Mr. SCHWEIKERT. Mr. Dobson?

Mr. DOBSON. Yes, sir.

Mr. SCHWEIKERT. Over the what, 3-year period, how many units have you acquired?

Mr. DOBSON. We will have purchased about 260 to 270 units.

Mr. SCHWEIKERT. And what do you think your capacity and appetite is?

Mr. DOBSON. Now, it's tens of thousands.

Mr. SCHWEIKERT. Do you care when taking down an individual property or package, whether they're already leased or vacant?

Mr. DOBSON. The already leased properties require a certain level of management that the empty properties do not. So, I think that you have to understand what goes into that. But, by and large, they are more attractive properties and more solid properties.

Mr. SCHWEIKERT. Your model, are you holding the properties?

Mr. DOBSON. This is a long-term, yes, sir.

Mr. SCHWEIKERT. So, in many ways you're trying to build an annuity, or a rental.

Mr. DOBSON. Right. We think that this is a new asset class.

Mr. SCHWEIKERT. Yes.

Mr. DOBSON. The mobility in the markets blazed a nice trail, and the capital has not been in the sector for a long time, because mortgages basically displaces economically returned capital.

Mr. SCHWEIKERT. So, you're approaching it as an apartment building, just with geographic separation.

Mr. DOBSON. Very long hallways.

Mr. SCHWEIKERT. Yes, very long hallways. And, actually, that is a running joke in our side of the business.

Mr. DOBSON. Right.

Mr. SCHWEIKERT. So, obviously, you get the humor in that. Have you had the experience of when you have acquired a property that has been recently foreclosed on, have you participated actually in being on the bidding side?

Mr. DOBSON. Sure. Sure.

Mr. SCHWEIKERT. Have you had the experience of keeping former owners in the properties?

Mr. DOBSON. Yes.

Mr. SCHWEIKERT. Share with us your experience.

Mr. DOBSON. Sure. In Phoenix, we purchased homes right off the courthouse steps. And we really dispatched—

Mr. SCHWEIKERT. I'm so glad you're not my competitor. I had to give up the business because of that, so—

Mr. DOBSON. It has become quite a feverish market. But we really dispatch someone to the home, and oftentimes the homeowner is still there. We present them with a lease application, more often than not they qualify, and they stay. So, the unfortunate part is because of this plan to draw out the liquidation cycle that was at the Federal level, many times the homeowner has given up before the foreclosure.

Mr. SCHWEIKERT. This is a pretty powerful point, and I wish people would listen. I'm sorry to be speaking in first person, but about 20 to 25 percent of our tenant base were the former owners, with hope one day to buy the property back.

Mr. DOBSON. That's right.

Mr. SCHWEIKERT. And they wanted their kids to still go to the same school, and their mother-in-law lived across the street, which might have been a reason to leave, but, and yet because of the way you were acquiring properties, you were able to get to the—even though there's that horrible emotional experience—

Mr. DOBSON. Right.

Mr. SCHWEIKERT. —but create some lineage of stability where there's relationship to the property.

Mr. DOBSON. And we think that would have been much more successful had we been able to purchase the properties when the homeowner was 6 or 8 months delinquent, and it was apparent how the story was going to end. If we buy homes after the homeowner has been delinquent for 18 months, many of the homeowners have already made plans and vacated their properties.

Mr. SCHWEIKERT. By saying that, you're also making the argument for if you—if you cannot mitigate it, there's not a short sale, there's not ability to rebuild the loan, then the stabilizing factor is move to the inevitable sooner.

Mr. DOBSON. Many of these homes we purchased for $100,000 had $300,000 mortgages on them. The homeowners were paying $1,800 a month for the first mortgage and $300 a month for the second mortgage. We leased the home back then, for $850 a month. This is a traumatic situation, but it's—for the homeowner to just sit and suffer and service this $300,000 worth of debt would have broke them over time. So, in essence, a lot of what's happening on the ground level is a very rational decision from homeowners to no longer support the unsustainable and irresponsible level of that.

Mr. SCHWEIKERT. On your average property that you're acquiring, and you're obviously acquiring in the Maricopa County markets, and I don't know what other markets, your average takedown, how much in rehab are you doing to each property?

Mr. DOBSON. We're spending about $8,000, and it's just an average, I would say that we really either spend—

Mr. SCHWEIKERT. Ours is about $6,700, sorry.

Mr. DOBSON. Right. So, about $8,000. And we tend to either spend $3,000, or sort of $18,000 or $20,000, which seems to be pretty big, a pretty big barbell there. But it's an extensive rehabilitation, because the rental markets are unbelievably competitive. We pride ourselves in the data that we gather and we're able to get down some interest and infrastructure is driving this thing.

Mr. SCHWEIKERT. So, with that variance, literally for every hundred houses you're buying, you're ultimately spending—

Mr. DOBSON. About $1 million.

Mr. SCHWEIKERT. Yes, $800,000.

Mr. DOBSON. And local, that's not a big investment, for every 100 homes.

Mr. SCHWEIKERT. Okay. As we get ready to close the panel, anything that we have not heard and put into the record that the panel believes we should share at this point?

Thank you for participating. I must tell you, each of you have some things I'm really interested in, I may be sending you some notes and asking you to comment for the record.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for Members to submit written questions to these witnesses and to place their responses in the record.

The hearing is now adjourned.

[Whereupon, at 10:55 a.m., the hearing was adjourned.]

A P P E N D I X

May 7, 2012

Statement of

Meg Burns
Senior Associate Director for Housing and Regulatory Policy
Federal Housing Finance Agency

Before the U.S. House of Representatives Committee on Financial Services,
Subcommittee on Capital Markets and Government Sponsored Enterprises

"An Examination of the Federal Housing Finance Agency's
Real Estate Owned (REO) Pilot Program"

May 7, 2012

Statement of Meg Burns
Federal Housing Finance Agency
Before the U.S. House of Representatives Committee on Financial Services,
Subcommittee on Capital Markets and Government Sponsored Enterprises
"An Examination of the Federal Housing Finance Agency's
Real Estate Owned (REO) Pilot Program"

May 7, 2012

Chairman Garrett and Ranking Member Waters, thank you for inviting me here today to testify on the Federal Housing Finance Agency's (FHFA) Real Estate Owned (REO) Initiative. I am Meg Burns, Senior Associate Director for the Office of Housing and Regulatory Policy at FHFA and I am responsible for managing this project.

As you know, FHFA regulates Fannie Mae, Freddie Mac, and the 12 Federal Home Loan Banks, which together support over $10 trillion in mortgage assets nationwide. Since 2008, FHFA has also served as the conservator to Fannie Mae and Freddie Mac (the Enterprises), a responsibility that the agency takes very seriously. In that capacity, FHFA has focused on minimizing losses to both companies through tighter underwriting standards, more accurate pricing of risk, and aggressive loss mitigation strategies.

The full array of Enterprise loss mitigation programs are designed to keep families in their homes whenever possible, pursue alternatives to help families avoid foreclosure when a mortgage modification is not feasible, and finally, move to foreclosure expeditiously when necessary. The objective of all of these efforts is to facilitate the stabilization of communities and neighborhoods.

My remarks today will focus on the disposition of properties that are conveyed to Fannie Mae and Freddie Mac through the foreclosure process. Today, the two companies own approximately 180,000 REO properties and approximately one-half of these properties are available for sale at any point in time. Preparing properties for sale often takes several months for a variety of reasons, such as the wait period required under state redemption laws during which foreclosed borrowers may re-claim ownership rights, and time needed to repair damaged or neglected properties.

The pace of REO sales has improved substantially over the last few months, a trend that suggests that the excess supplies of these properties should decline in the future. However, the number of non-performing loans – particularly severely delinquent loans – remains large. Today, the Enterprises collectively own or guarantee approximately 1.3 million non-performing loans, the majority of which are more than a year delinquent. A priority for FHFA and both companies is to avoid foreclosure even in these protracted cases, through short sales, deeds-in-lieu, and deeds-for-lease.

Loss Mitigation and Current Approach to REO Disposition

Fannie Mae and Freddie Mac have been leaders in working to resolve problem loans and address the ongoing challenges in the market. Collectively, their efforts have made a meaningful impact on reducing foreclosures. Since conservatorship, the Enterprises have completed 1.1 million loan modifications, more loan modifications than foreclosures. These modifications plus all other foreclosure prevention activities, total to some 2.2 million foreclosure prevention actions, more than twice the number of foreclosures the Enterprises have completed during this same period.

Not every foreclosure can be prevented, however, and the REOs must be sold in a manner that is most beneficial for both the Enterprises and the neighborhoods where these properties are located. Efficiency in the process, with conscientious repair and sales preparation, diligent management, and aggressive marketing of the properties results in the best outcome for all. To date, both Fannie Mae and Freddie Mac have performed this role well. Both companies rely on retail sales strategies, where properties are sold one at a time, most often to buyers who plan to use the properties as their primary residence. In 2011, approximately 65 percent of the Enterprise REOs were sold to owner-occupants. The majority of these properties were sold within 60 days, at close to market value.

Further, both companies offer special sales opportunities for nonprofits and local governments to purchase properties before they are marketed to a broader set of investor buyers. The Enterprises' First Look programs permit properties to be used for mission-oriented community stabilization programs. During the first 15 days that a property is listed, both companies only consider offers from those seeking to purchase the home as their primary residence and public entities. Finally, for properties that do not sell within six months or so and are sufficiently concentrated in a particular geographic area, Fannie Mae and Freddie Mac engage in small bulk sales. The properties sold through these arrangements are usually lower-valued homes and are purchased by nonprofits, local governments, or regional investors.

Objectives of the REO-to-Rental Initiative

The REO-to-Rental Initiative complements these primary disposition strategies and is intended to serve as a pilot, providing an opportunity to test another model. The goals of this pilot are fairly limited, particularly relative to public perception, so it is critically important to review FHFA's objectives:

1) Gauge investor appetite for a new asset-class - scattered site single family rental housing - as measured by the price that investors are willing to pay for a traditionally high-value commodity that has been hampered by oversupply;
2) Determine whether the disposition of properties in bulk, as opposed to one-by-one, presents an opportunity for well-capitalized investors to partner with regional and local property management companies and other community-based organizations to create appropriate economies of scale, yet provides civic-minded approaches that can stabilize and improve market conditions;

3) Assess whether the model can be efficiently replicated to make it a worthwhile addition to the standard retail and small-bulk sales strategies in place at the Enterprises and other financial institutions with large inventories of properties to sell.

I'd like to also clarify some misconceptions about FHFA's intent and goals with this effort. The REO Initiative is highly targeted, focused only on markets that provide an opportunity to correct a fundamental supply-demand imbalance. This type of intervention would be highly inappropriate on a national scale and the program was never intended to be offered nationally. The pilot markets are carefully selected, based on obvious market characteristics – an oversupply of single family homes for sale and a strong demand for rental housing. Further, the pilot will not result in severely discounted sales. If the response from investors demonstrates that these properties cannot be sold at prices that are close to what Fannie Mae can get through a retail execution, the properties will not be sold. While FHFA as conservator must consider the return to the Enterprise, the agency is also concerned about the negative impact on the communities and local housing markets from any further depression of home values.

The uncertainty surrounding the outcomes of the pilot also led to the decision to involve only Fannie Mae properties in the first phase of the Initiative - for several reasons. One, Fannie Mae has more homes available, in concentration, in the selected markets. Two, given that the program is simply a pilot, FHFA was careful to consider how resources would be dedicated to infrastructure and implementation and determined that only one company should expand upon existing capabilities to test the model. And, three, given the significant legal and operational challenges associated with bundling a group of properties in any given market, the decision was made to limit the scope of properties for sale to those from one company.

Similarly, based on the uncertain outcomes, the pool of properties made available for sale in the first transaction includes a large portion of homes that are already rented. Most of the tenants living in these homes were in place when the properties were conveyed to Fannie Mae; the former investor-owners lost the properties through foreclosure. Fannie Mae and FHFA decided to assemble pools composed mainly of rental properties to ensure that large numbers of vacant properties were not held off-market for the significant period of time required to execute a sale. The sales timeline is as aggressive as it can be, but must include adequate time for the assembly of the pools, compilation and publication of property-level information, due diligence by potential buyers, evaluation of qualified investors' plans, and the ultimate bid auction itself. Furthermore, offering rental properties for bulk sale actually helps to test one of the key objectives – to determine investor appetite for this asset class.

Another fundamental misunderstanding stems from the desire to address long-standing rental housing issues with this program. In fact, the REO-to-Rental Initiative was never intended as a vehicle to increase the national supply of affordable rental housing, nor to improve the rental housing stock, through energy-efficient or "green" home improvements. Given that the properties sold under this Initiative are all unique, with various building styles and materials, any effort to engage in large-scale upgrades would be hampered by the inability to purchase building products in bulk and to standardize the construction process. Additionally, while the properties are located in general proximity to one another, the distance to travel for ongoing maintenance and management will likely be a challenge and add costs for any asset manager. The economies of scale that provide an opportunity to reduce costs in multifamily rental housing are likely not applicable to this type of housing.

I would note that the expansion of rental housing options in the affected communities could have a beneficial impact on price in the surrounding rental market. These homes also offer better alternatives for larger families than many traditional multifamily rental complexes, with more bedrooms and outdoor space for recreational activities. And the general home improvement, which may include the installation of insulation or new, more energy efficient appliances, could ultimately contribute to the overall improvement of the housing stock; it's just not the primary goal of the program.

Current Status of the REO-to-Rental Initiative

In developing the REO-to-Rental Initiative, FHFA invited several federal agencies with experience in asset disposition and REO sales to participate in an interagency working group, reviewing information received by the original request for information issued in August 2011 and evaluating alternative approaches for the pilot. The working group includes the Federal Deposit Insurance Corporation (FDIC), the Department of Housing and Urban Development, the Federal Reserve, and the Department of the Treasury, along with Fannie Mae and Freddie Mac. The interagency input has been helpful and FHFA adopted a version of the FDIC approach to asset disposition for banks as a model for this pilot.

We are well into the first transaction, announced in February, targeting areas that have been hardest hit by the housing crisis. Fannie Mae is selling approximately 2,500 properties, divided into eight sub-pools, located in Las Vegas, Nevada; Phoenix, Arizona; various communities in Florida; Chicago, Illinois; Riverside and Los Angeles, California; and Atlanta, Georgia. More detailed information on the number of properties in each location is available on FHFA's web site http://www.fhfa.gov/Default.aspx?Page=360. Immediately following the announcement, interested investors were asked to prequalify by certifying to their financial capacity, relevant market experience, and obligation to follow the transaction rules. Those who prequalified were then eligible to submit an application to participate in the auction. Evaluation of those applications is now underway.

The application process is comprehensive, rigorous, and demanding, requiring exhaustive amounts of information and documentation from the applicants and their business partners. Only those investors who have sufficient capital and operational expertise will make it past the scrutiny of the reviewers. The financial strength of the investors may depend on partnerships among several parties. Nonprofit investors may work with – and tap into the deeper financial base of – institutional investors and various types of investors can pool resources to expand capacity and create better execution. As mentioned previously, the intent of the Initiative is to test whether or not private capital can and will come into this new asset class, providing much-needed financial support to some of the hardest-hit housing markets.

Just as important, only those investors with deep operational expertise in both asset management and property management will make the cut. The application requires that the investors describe their previous experience managing these types of assets, from marketing to leasing to maintenance. How relevant, extensive, and recent that experience was will matter in the scoring.

In addition, the applicants were expected to detail their plans for operating a first-rate rental program with these particular properties. They were required to explain how they will rely on local and regional organizations to tailor their programs to meet the needs of these residents in these communities. Investors had to describe what resources they will call upon to ensure that properties are repaired, leased quickly, and well-maintained, and to guarantee that the residents receive the services they need. There is an expectation that local construction and repair companies will be engaged due to their familiarity with state and local building codes, that local property management firms will have knowledge of the potential tenant population in the area and the best means of marketing to these citizens, and that community-based nonprofits may provide supportive services to the residents. The program even requires that the new owners pay for tenants to receive credit counseling at their request from a HUD-approved housing counseling agency in order to help repair their credit and get them on more stable footing.

This rigorous application process is intended to narrow the pool of eligible bidders to those who have financial and operational expertise, but also the mission-oriented commitment to ensure that this program brings capital to markets in need in a way that stabilizes communities.

Currently the independent third party hired to review the applications is in the process of doing so and this process will be completed in next few weeks. After that, eligible bidders will be notified and the bid process will begin. FHFA's goal is to complete this first pilot transaction in the next few months.

Conclusion

To reiterate, the REO-to-Rental Initiative is a pilot, a test, to see whether another disposition strategy can complement existing sales efforts, generating private investment in single family rental housing in a way that is both efficient and effective at stabilizing local markets.

The pilot relies on Fannie Mae for execution, but frankly, the Enterprise portion of the REO market is limited, so the future benefit of the program may be more applicable to private financial institutions that choose to sell their inventory in this manner. Further, as mentioned previously, both companies will continue to rely on their existing retail sales strategies as the primary vehicle for selling homes. Retail sales move properties quickly, most often to families who plan to reside in the homes, and at prices that are close to market value. As part of the broader REO efforts underway, FHFA is working with both companies to enhance these retail sales approaches, improving and expanding specialized financing programs available for both homebuyers and small investors.

I thank you for the opportunity to testify today and look forward to your questions.

Amherst® Holdings LLC

May 7, 2012

Sean Dobson / scobson@amherst.com / 512.342.3030

Testimony of Sean Dobson, CEO, Amherst Securities Group

before the

Subcommittee on Capital Markets and Government Sponsored Enterprises

of the

House of Representatives Committee on Financial Services

"An Examination of the Federal Housing Finance Agency's Real Estate Owned (REO) Pilot Program"

Mr. Chairman and Members of the Subcommittee, thank you for your invitation to testify today. My name is Sean Dobson, and I am the CEO of Amherst Holdings. Amherst Holdings consists of several enterprises all of which support single family housing finance in one way or another. Amherst Securities Group LP is a leading broker/dealer specializing in the trading of residential and commercial mortgage-backed securities; Amherst Advisory is an advisory and asset management platform managing funds invested in mortgages and Main Street Renewal is an entity we established to invest in single family rental properties. Across these platforms, Amherst tracks the housing and mortgage markets at the asset level. This includes monitoring monthly performance on over 40 million active mortgages and real estate transactions on over 80% of the taxable parcels in the United States.

My partners and I have been a part of the housing finance infrastructure of the U.S. for over 25 years. I want to point out that although we are a dedicated real estate finance platform, Amherst demurred on the opportunity to originate and underwrite of subprime, "alt-a", pay option mortgages and their highly-leveraged and over rated RMBS and CDO progeny that created the financial crises we are still living through today.

I am here to discuss our view of the U.S. housing markets and how we view the costs and benefits of properly managed bulk sale transactions. Since this topic can get pretty dry, I'll jump right to the bottom line. Last year over 1 million homes were lost to foreclosure; these homes were liquidated through a legacy process targeted to owner occupant buyers. Unfortunately, the bursting of the housing bubble and subsequent retraction of credit availability left very few qualified prospective owner occupant buyers. As is to be expected, these conditions mean that the majority of foreclosed homes are already being sold to investors[1]. The current process has forced prices to generational lows and has housing caught in a reflexive downward spiral. Lower home prices are causing more mortgage defaults, which cause more distressed sales, which in turn lower prices, starting the cycle over again. Although recent headlines have been less negative, we should all be concerned about the 6-9 million unit backlog of unresolved and impaired mortgages. A disorderly liquidation of the distressed REO inventory will further undermine consumer confidence and presents a threat to the nascent recovery in the overall economy.

[1] Please see Exhibit 1

We believe that a well designed bulk sales program will have little upfront costs and can diffuse much of these macro risks while also alleviating the burden that abandoned and non-performing REO is having on communities and existing home owners currently making their mortgage payments. I would like to start to talk about these benefits from the ground up and then estimate the upfront costs.

Current occupants can be saved - As you likely know, the GSEs currently own thousands of homes that are "tenant occupied." In these cases, a borrower defaulted on a mortgage after leasing the property to a family. If these homes are liquidated via the current process, (one at a time), the leases will not be renewed, the families will be asked to move and the home will be sold, primarily to investors. The FNMA pilot programs for bulk sales are these tenant occupied homes. If a long term investor purchases these homes through a bulk sale, many of the tenants will be able to stay in place. By simply short circuiting the process we accomplish simple things -- children stay in their schools, neighborhoods are maintained and lives are not disrupted. At Amherst, we purchased the only auction of these types of homes ever conducted by Fannie Mae. We were able to maintain one-half of the occupants in their residence. If a successful market for occupied homes is established, this type of benefit could also accrue to owner occupants nearing foreclosure. Servicers should be financially incented to keep the home occupied and cash flowing as they would recover a higher price upon sale of the property.

Rental inflation can be minimized - Another first order benefit of a bulk disposition program is the increase in the speed at which housing is released back into the market. Due to the tightness of mortgage credit and the large number of families being displaced by foreclosures, apartment vacancies are falling and rents are rising sharply. Even with the anemic recovery in jobs, rents are rising and vacancies are below pre-crises levels[2]. The current drawn out foreclosure process is keeping millions of housing units off the market, and is causing renting families to suffer rent inflation. It is also worth noting that this uptick in rental performance has increased multi-family unit construction, which is resulting in the banking system and the GSEs increasing their exposure to this asset class while millions of single-family housing units sit in disrepair awaiting a resolution. This is potentially a misallocation of capital that could haunt us later.

Home prices can be <u>increased</u> - Beyond these first order benefits we think a series of bulk sales will have a direct and positive impact on home prices. Currently, the investor base purchasing homes is highly fragmented and, as a consequence, experiences a high cost of capital relative to the overall market. While these investors should be commended for responding to the crisis by deploying private sector capital and resources to this sector, they have not been able to move home prices upward even as housing prices are at a generational low relative to affordability or rental value. As a comparison, the median apartment in the U.S. that rents for $1,200 per month has a market value of $162,000 while a home that rents for the same amount sells for closer to $120,000, a <u>35%</u> discount. In a healthy housing market, that price relationship is usually reversed. The causes for the discount are several, but our belief is that the primary villain is the lack of an efficient capital transfer mechanism for the asset. In other words, investment housing is a cottage industry and has very little access to equity or debt capital.

Single family property investors are generally very small operations and only own around three homes. The largest platforms we have encountered only own 1,000 units or so. This, of course, limits operational efficiency and increases the all-in cost of capital for single family investors. In contrast, the top ten public apartment REITS own, on average, 55,000 units. Therefore, the key to decreasing capital cost and thereby increasing home prices back towards some semblance of fair value is standardizing the single family leasing industry and creating a smooth capital transfer mechanism.

[2] Please see Exhibit 2

We have been investing in homes with this in mind for over two years, and believe, without question, operating in scale can be done safely. The largest hurdle to achieve this scale is the acquisition process. Foreclosure auctions are open outcry for single transactions and the realtor - servicer process is simply too clumsy. This asset class needs to attract hundreds of billions of dollars; there simply is not enough time for investors to negotiate hundreds of thousands of purchases one at a time.

The concept of housing as a threat to the economy can be arrested - The depths of the mortgage problems can be measured in several ways. The nation's REO inventory sits at around 400,000 units, yet this is but the tip of the proverbial iceberg[3]. Our data shows over 3.3 million mortgages, with underlying real estate valued around $430 billion, have not received a payment in over twelve consecutive months. Behind that mountain of real estate lies another 6+ million units that are either delinquent or are so deeply credit impaired that they are hanging by a thread. When you contrast these horrific numbers to the 85,000 units of REO being sold each quarter for approximately $11 billion dollars, I hope you see why we are concerned. Either the pace of liquidation has to increase, which under the current model could drive home prices even lower, or this back log will stand as a threat to the economy for at least another four years.

Because of the Fannie Mae pilot programs, we and others have embarked on building the appropriate platforms to shepherd the necessary capital to the market. This is a meaningful event because a simple way for equity capital to find its way to housing does not exist currently. The work we and others are doing could very well change the conversation around housing and create a back stop for home prices. With large credible buyers entering the market, the fear of the supply/demand imbalance should abate. Institutional investors creating a "credible threat" of higher home prices could serve to move potential home buyers off the side lines.

As it sits today, with a negative national dialogue around housing, there is little impetus for buyers to act. We believe that home building, real estate transactions, property improvement investment and all of the industries associated with housing are paused, waiting for a signal that a disorderly liquidation of the foreclosure backlog will not destroy asset values. *The nation needs to build sustainable demand in a large and credible way.* Without a reasonable expectation of a streamlined acquisition process, investors, like us, will not take the risk in building out this large national infrastructure and the benefit of a "credible threat" would not be realized by the housing markets. It is worth adding that without this infrastructure to pass capital from the markets to housing, the Federal Reserve's dramatic monetary policy efforts are pretty much in vain. It does not matter how low bond rates go or how many mortgages the Federal Reserve buys, the credit and capital transmission system will remain broken, or non-existent, unless it is repaired.

It is worth noting that converting a large portion of the distressed inventory to performing assets is a natural stimulant to the local and national economies. Property repair and renovation is done with local labor, occupant services are managed by local companies. Property owners are incentivized to keep the home in desirable condition to compete in the rental markets. As these investments are made, and neighborhoods are repopulated, confidence builds. This will likely attract more capital and lift asset prices. Kicking off this type of a virtuous cycle is what the housing market needs.

By now you must be saying, that bulk sales are the gift we've been waiting for.

1. Less trauma to current occupant families
2. More affordable housing supply

[3] Please see Exhibit 3

3. Higher home prices
4. A reduction of REO and non-performing loans

But, there must be a catch. How much will it cost the taxpayer?

It may not cost anything – There is significant discussion about the level of price discount required to attract bulk buyers. We have heard discussions indicating that the current process achieves a sale price of around 94% of "value" and a bulk investor might not pay as much. We think the idea of single asset sales as the best execution is sound in that it tries to find an owner occupant buyer who by definition should pay the highest price for the home. The problem is that this is working, at best, half the time. Additionally, the process can get caught in a logic loop. For example, let's say you were an REO seller and wanted to price your inventory relative to recent sales. If you looked at last month's transactions and decided your home should sell for $100,000 you might be happy to take $94,000 as it is a very small discount. Of course, you are not the only REO seller and when you repeat the process next month you see that everyone also sold for $94,000. This month when you compare comps, naturally you get $94,000 as fair value. If you then sell for a 6% discount, you get $88,000. You still only took a 6% discount, but at this pace home prices are seemingly falling at a 70% per annum rate! It is this process that has allowed home prices to fall to generational lows.

Another important set of facts to understand are the costs associated with a single asset sales process. The table below is our estimate of the direct expenses related to a single asset transaction. Commissions, repair costs, taxes and insurance can easily run 20% of asset price. These direct expenses do not begin to account for the comprehensive platforms the GSEs have been required to establish to manage the home from the point of foreclosure, through the rehabilitation process and on to the sales transaction. This management infrastructure is necessarily substantial. Therefore, a sale taking place at an earlier phase of the process can achieve a lower gross price of 20%-30% and can create an equal or higher net price for the REO seller.

Home Value		$ 150,000	
Sales Price		$ 141,000	94% of Value
Comission	$ (8,460)		6% of Sales Price
Closing Costs	$ (3,525)		2.5% of Sales Price
Repairs	$ (7,000)		Average
Propert Taxes	$ (1,500)		6 months @ 2% per annum
Insurance	$ (1,350)		6 months @ 90bps per annum
Costs		$ (21,835)	
Net Proceeds		$ 119,165	
Gross Recovery as % of "Value"		79.4%	Pre-administrative overheads

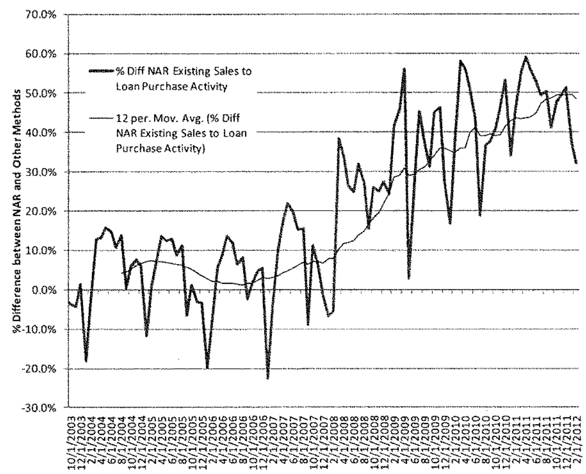
Over time, we do not believe that a bulk discount will prevail. After the first $10-$20 billion in sales, we believe capital will become more available and prices will rise. Even if the net proceeds from the first $20 billion were 5% less than single asset sales, they could drive the price of the next $400 billion in sales much higher. While there may be some small costs to priming the pump, we believe these costs are minimal when compared to the larger picture.

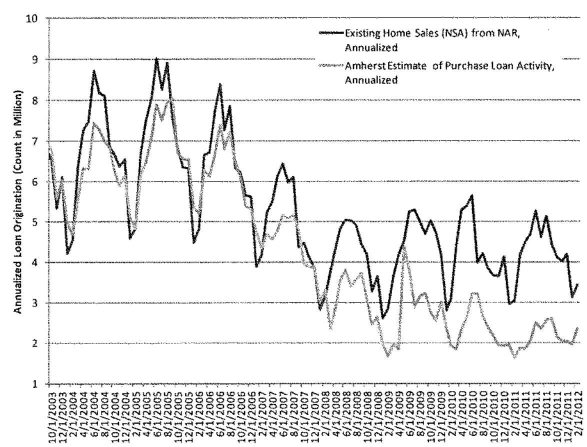
I want to be clear that given the current investor base, the GSEs are finding the best execution. The idea of bulk selling is meant to bring a new buyer to the market; one with a long investment horizon, properly priced capital and a reduced friction operating platform with scale pricing. The potential for bulk sales motivates these investors to get organized and allows monetary policy to actually reach the target assets.

No matter what your position is in this debate, it is hard to argue that the status quo is acceptable. The backlog of unresolved defaulted mortgages hangs as a pall over the U.S. economy. The lack of credit, lack of confidence and the continual threat of a tsunami of distressed sales have conspired to undermine housing and prevent the sectors normal contribution to overall economic activity and job growth.

Thank you for the opportunity to testify. I look forward to any follow up you may have.

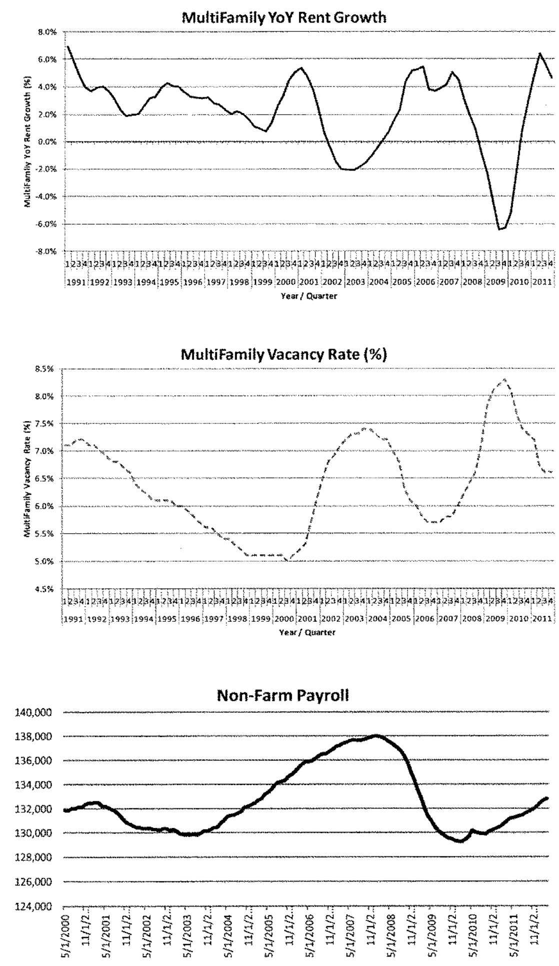
Exhibit 1: The Majority of Foreclosed Homes are Already Being Sold to Investors





Source: CoreLogic, 1010Data, Amherst Securities as of Feb 2012

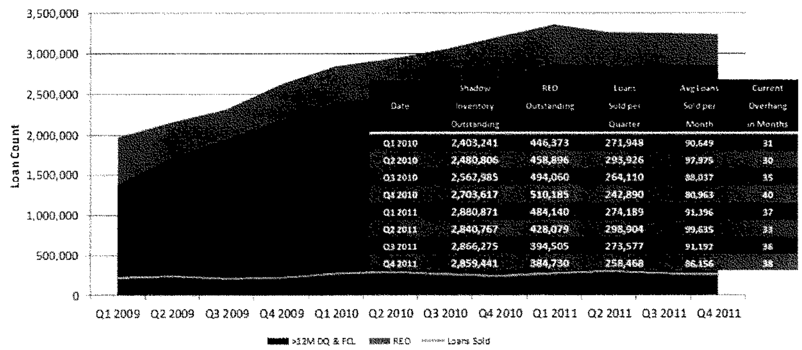
Exhibit 2: Even with Anemic Recovery in Jobs, Rents are Rising and Vacancies are Below Pre-Crisis Levels



Source: US Census, PPR, Amherst Securities

Amherst® Holdings LLC

Exhibit 3: The Depths of the Mortgage Problem



Date	Shadow Inventory Outstanding	REO Outstanding	Loans Sold per Quarter	Avg Loans Sold per Month	Current Overhang in Months
Q1 2010	2,403,241	446,373	271,948	90,649	31
Q2 2010	2,480,806	458,896	293,926	97,975	30
Q3 2010	2,562,985	494,060	264,110	88,037	35
Q4 2010	2,703,617	510,185	242,890	80,963	40
Q1 2011	2,880,871	484,140	274,189	91,396	37
Q2 2011	2,840,767	428,079	298,904	99,635	33
Q3 2011	2,866,275	394,505	273,577	91,192	36
Q4 2011	2,859,441	384,730	258,468	86,156	38

- Despite Liquidations averaging 90k per month, since January 2009 the balance of the Shadow Inventory (loans greater than 12 months DQ, loans in foreclosure and REO properties) has increased by an average of 60k each month
- These figures DO NOT include any contribution from borrowers less than 12 months DQ, who have a very substantial chance of entering the Shadow Inventory over the next year, or re-performing borrowers, who have a reasonable chance of becoming delinquent again over the near term
- Current Overhang = (Shadow Inventory Outstanding + REO Outstanding) divided by Average Loans Sold Per Month

Source: CoreLogic Prime Servicing Database, CoreLogic Securitized Loan Database, FDIC, Fannie Mae, Freddie Mac, FHA, 1010Data, Amherst Securities

Enterprise

Celebrating 30 years

Testimony of Rob Grossinger
Vice President, Community Revitalization
Enterprise Community Partners, Inc.

May 7, 2012

Good afternoon. Thank you for inviting me to testify today. My name is Rob Grossinger, Vice President for Community Revitalization at Enterprise Community Partners, Inc. Enterprise is a family of companies working together to build opportunity in communities across the country. Opportunity begins when people have a safe, healthy and affordable place to call home in communities with access to good jobs, excellent schools, efficient transportation and healthy living environments. For 30 years, Enterprise has introduced solutions through public-private partnerships with business, philanthropy, community development corporations, advocates and social entrepreneurs that share our vision that one day, every person will have an affordable home in a vibrant community, filled with promise and the opportunity for a good life. Since 1982, Enterprise has raised and invested more than $11 billion in equity, grants and loans to help build or preserve nearly 300,000 affordable rental and for-sale homes to create vibrant communities and more than 410,000 jobs nationwide.

Given the chance, people will climb the ladder of opportunity. But for so many of us, the middle rungs of the ladder have been broken, with individuals and families sliding all the way to the bottom. This has been especially true over the past several years as the economic and foreclosure crises have devastated families and neighborhoods across the country. Communities that are traditionally underserved by mainstream mortgage lenders have been even more severely impacted by the concentration and volume of foreclosures and vacant real-estate owned (REO) properties. Consequently, they will take longer to recover. Enterprise is dedicated to helping these families and communities by providing comprehensive neighborhood stabilization strategies and advancing policies to achieve this goal. Though the foreclosure crisis is relatively recent, vacant and abandoned homes are not. For decades, Enterprise has worked nationally to promote neighborhood stabilization policies and help communities at the local level cope with the destabilizing impact of vacant and abandoned houses.

REO-to-rental fits squarely into our broader neighborhood stabilization agenda and mission. In my testimony today, I will focus on different approaches and a range of tools available to stabilize neighborhoods. By keeping whole communities in mind, as opposed to more siloed approaches, we can ensure that the right solutions are available and tailored to both impacted individuals and the wide-ranging needs of diverse communities. Therefore, our primary policy recommendations are:

1. *Attempt to keep families in their homes.* Avoiding vacancy is the best neighborhood stabilization strategy. We recommend that a wide range of tools be available, including principal reduction and other sustainable mortgage modification programs for at-risk homeowners. As I will discuss later in my testimony, Enterprise has partnered with three other national not-for-profits and the Illinois Housing Development Authority to develop the Mortgage Resolution Fund. The goal of the Fund is to purchase delinquent mortgage notes using a portion of Illinois's Hardest Hit Funds with the intention of dramatically modifying the note terms and principal balance to keep the existing homeowners in their homes.
2. *Return vacant properties to productive use as quickly as possible and expand the supply of affordable rental housing.* Vacant and poorly maintained buildings invite blight and crime, drive down neighborhood property values and counteract attempts to stabilize neighborhoods. In addition, demand for affordable rental housing has grown, putting pressure on the neediest families. We recommend that the federal government encourage responsible public and private efforts to acquire and rehabilitate vacant and foreclosed homes so that they can provide affordable rental opportunities to low- and moderate-income families.
3. *Ensure that affordable homeownership remains available for low- and moderate-income families.* We know that low- and moderate-income households, given

responsible financial products, can remain homeowners even in times of stress. We recommend that the federal government continue to promote policies that provide fairly-priced, responsible and sustainable mortgage access to credit-worthy borrowers.

4. *Target stabilization efforts.* In this world of limited resources, we must target our efforts to ensure that we can make a real difference in any given neighborhood. We recommend that federal efforts be coordinated and build upon existing stabilization strategies. We encourage banks to develop robust, well-integrated anti-blight strategies for their own portfolios.

Enterprise was among the first to recognize the importance of proper REO disposition in order to facilitate neighborhood stabilization. We testified at one of the first Congressional hearings before the Senate Banking Committee on January 31, 2008 and urged Congress to implement comprehensive foreclosure stabilization policies. We formed the Save America's Neighborhood Campaign, a broad-based coalition of 39 national and local organizations concerned about the foreclosure crisis' impacts on communities, including real estate developers, Realtors, housing advocates, civil rights groups and state and local governments. This coalition championed the passage of the Neighborhood Stabilization Program (NSP), and we have continued to work with our partners on the ground to both implement and leverage NSP to ensure maximum impact. We are grateful to Representative Maxine Waters for her leadership in ensuring that homeowners and communities were not forgotten in the midst of the financial crisis. Because we know how important NSP has been in communities around the country, we are strong supporters of H.R. 3502, the Project Rebuild Act of 2011.

In addition, we were one of the six founding members of the National Community Stabilization Trust (NCST) an entity created in 2009 to facilitate government agency and non-profit efforts to revitalize distressed neighborhoods by providing efficient, streamlined access to vacant and abandoned properties from financial institutions. As founding members, Enterprise, the Housing Partnership Network (HPN), Local Initiatives Support Corporation, National Council of La Raza, National Urban League and NeighborWorks America are currently working with NCST to provide local private and public entities with innovative programs and services that facilitate the acquisition and productive reuse of foreclosed and vacant properties. NCST works with over 300 local housing providers in 46 states and has transferred over 6,700 properties from bank REO status to ownership by community developers. NCST maintains a working partnership with the Department of Housing and Urban Development to administer the National First Look Program, a property transfer platform that connects NSP-funded housing providers with the REO inventories of the nation's largest servicers, Federal Housing Administration (FHA), Freddie Mac and Fannie Mae in a program that permits the streamlined acquisition of distressed properties in neighborhoods disproportionately impacted by foreclosures and abandoned housing.

At Enterprise, we continue to work with our partners to develop the national tools and local capacity to implement holistic neighborhood stabilization in the wake of the foreclosure crisis. We help homeowners, renters and communities at all points in the foreclosure timeline. The foreclosure process is a continuum that begins with an already distressed or soon-to-be-distressed homeowner and, without intervention, typically ends with a vacant, foreclosed home. Enterprise, in conjunction with our partners, seeks to find the various intervention points where we can influence the outcome so that it is better for the homeowner and the community. For example, to help families still in their homes, we co-founded the Mortgage Resolution Fund, discussed in more detail below, to purchase delinquent loans for the purposes of principal reduction. But recognizing that not all foreclosures are preventable, we are also working with partners, including for-profit equity funds, to facilitate responsible REO-to-rental programs so that we can help stabilize neighborhoods by reducing the inventory of vacant, unsold homes and creating affordable rental stock. Both solutions are a marked improvement for both the neighbors of foreclosed homes and the new families living in the homes.

REO-to-Rental

REO-to-rental is an important intervention at the end of the foreclosure process. It helps stabilize neighborhoods because it returns vacant, foreclosed homes to productive use by filling them with renting families. It also can expand the supply of affordable rental homes, which is critical in this country where more than 26 percent of renters pay more than half of their income for rent.[1]

With the already significant number of vacant, dilapidated homes destabilizing many neighborhoods, demolition may be the best option, and for that reason we support H.R. 4210, the Restore our Neighborhoods Act of 2012. This bill would provide additional resources to states and localities seeking to eliminate blighted properties. As we seek solutions to the foreclosure crisis, we must choose the REO disposition method that best reflects the needs of each individual property and community.

However, many properties can and should be occupied again by homeowners and renters. Due to the significant stock of foreclosed, vacant homes coupled with the tightened mortgage credit market, we have begun to work with the public and private sector to convert many of these foreclosed homes into rentals because it can stabilize neighborhoods, expand the supply of affordable rental properties and ultimately make good financial sense for banks and servicers. Filling these homes with renters is a viable solution to help stabilize neighborhoods because it reduces vacancies and keeps homes off the over-saturated for-sale market during this volatile time.

At the end of 2011, there was an anticipation of large bulk sales from FHA and FHFA. This has prompted a lot of interest from private capital that views REO-to-rental as a good business opportunity. Though it is currently unclear just how large those government bulk dispositions will be, this is a good opportunity for the government to set standards for the sale, disposition and management of REO homes. Such standards would allow private capital to flow in such a manner so as to help address this problem, as opposed to exacerbating it, while ensuring that this new REO-to-rental initiative benefits all communities, including low- and moderate-income communities.

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[1] Statistic from 2001-2009. Joint Center for Housing Studies of Harvard University. "The State of the Nation's Housing 2011." Available at: http://www.jchs.harvard.edu/research/publications/state-nation%E2%80%99s-housing-2011

Enterprise is in favor of public and private efforts to convert foreclosed properties into rental and commends the FHA and FHFA's ongoing efforts to address the significant REO inventory held by government entities. However, we are concerned that the FHFA pilot announced by Fannie Mae earlier this year does not include certain elements to ensure that the REO disposition process helps, rather than hurts, ongoing efforts to reduce vacancy and revive the hardest hit housing markets. We urge FHFA and FHA to make sure this pilot complements, rather than complicates or undermines, those actions by encouraging partnerships between for-profit and non-profit entities. A monitoring component on each sale is necessary to ensure that purchasers coordinate their activity with local and federal revitalization activities. Such a monitoring component would help to ensure that the purchaser accomplishes its stated intentions (including quality property management) and does not 'walk-away" from problems that develop as a result of market miscalculations or unintended outcomes resulting from bulk purchases. This would also require communication with local authorities from both the REO purchaser and the FHFA agency and would ensure that private sector actors are properly monitored and vetted so as to avoid poor property management.

We at Enterprise have entered this REO-to-rental market looking for gaps in the private market that can be filled with community stabilization as the primary goal. Thirty years of experience have taught us that private capital will not be attracted to all neighborhoods and that certain low-income or minority neighborhoods may be left out of this new stabilization trend. Therefore, Enterprise has entered into a partnership with a for-profit equity fund to develop programs in neighborhoods that private equity would not reach without partnering with not-for-profits with on-the-ground expertise. Such a real partnership of private equity capital coupled with Enterprise's neighborhood-based expertise is exciting because it can be a model to scale up and stabilize our target neighborhoods. This experience also informs our policy position because we believe that neighborhoods will be served best if there are partnerships between private equity capital and local non-profit expertise. Therefore, we urge the FHFA and FHA to include incentives in its bidding and financing processes that encourage partnerships that will maximize the affordability and proper maintenance of the properties.

Mortgage Resolution Fund

Though we certainly support REO-to-rental strategies for foreclosed homes, we prefer to avoid REO all together. Instead, we believe that it is best for homeowners and communities if we can intervene further up the foreclosure process and keep people in their homes. Therefore, I'd like to focus for the moment on a pilot program we are running in Illinois that seeks to acquire and modify delinquent mortgages of homeowners in targeted low- and moderate-income neighborhoods. This is a very real example of what can be done today to help these homeowners and communities. I will be happy to report back to Congress on the outcomes of this pilot later this year.

Enterprise, Housing Partnership Network, Mercy Housing and NCST together formed the Mortgage Resolution Fund (MRF). The mission of MRF is to create stable options for homeowners for whom homeownership is still financially viable and to provide rental options for homeowners whose loans cannot be modified. MRF is designed to purchase distressed mortgage notes from financial institutions and other servicers/investors with the explicit intent of reducing the mortgage principal and modifying the note to keep the homeowner in their home whenever possible. MRF's note acquisition pricing model is consistent with the market price established in the current distressed mortgage note sales market.

In Illinois, MRF began working with the Illinois Housing Development Authority (IHDA) to implement MRF using the state's allocation of federal Hardest Hit Funds. In partnership with IHDA, targeted zip codes in the greater Chicagoland area were selected based on the filters discussed below. We worked continuously with IHDA over a nine month period to design the program, and it was then approved by the Treasury Department. The mission of MRF is to use the states' Hardest Hit Funds allocated by the U.S. Treasury to state housing finance agencies to achieve socially responsible principal reduction solutions for borrowers. Moreover, the notes are being purchased in geographically targeted hard-hit markets, using local community nonprofit organizations to directly assist the delinquent borrowers in getting back on track with payments. The state of Illinois has led the way by committing $100 million in Hardest Hit Funds to MRF, which has provided an example to other state HFAs to begin working with MRF to implement this program in their states.

Specifically, MRF is acquiring the delinquent note at the current market price for nonperforming note sales, reducing principal to between 85-90 percent of the current home value, and providing credit counseling to help the homeowner so they can meet the new payment amount and reduce all of their monthly debt to 45 percent of their total income. We do significant due diligence before we decide which notes to purchase. We target homeowners who are still living in their homes, earning documentable income and want to remain in their homes. Also, we provide comprehensive credit counseling so that our participating families can develop an individualized budget so they can assume the new mortgage payments in a long term, sustainable way.

Geographic targeting is important to MRF. We are targeting harder-hit neighborhoods, concentrating on communities that are recipients of NSP funds. MRF uses two filters to arrive at its optimal geographic target areas. The first filter defines the core geography for the program in a given market:

- The census tract must score between 12 and 19 out of 20 on the NSP2 needs scale developed by HUD.
- Eligible census tracts must show a U.S. Postal Service vacancy rate of 10 percent or less.
- Eligible census tracts must have an Average Median Income (AMI) of 120 percent of household income or below.

The second filter defines local market viability by analyzing sales data, such as average sales prices and foreclosure sales prices. This filter forms the basis for determining whether there is market viability in a particular zip code.

MRF expects to be able to modify 60 percent of the notes purchased, a much higher success rate than private equity funds – the private firms we interviewed before the formation of MRF keep only 20-25 percent of homeowners in their homes on average. We anticipate that we can modify this larger-than usual percentage of loans because of the ability to be selective in our purchases and the intensive debt management services provided by our program. MRF conducts comprehensive financial education that focuses on reducing all of the homeowner's debt to ensure that the new loan payments are affordable and sustainable. Our mortgage resolution specialists also work with the 40 percent of homeowners who cannot or choose not to remain in their homes for up to six months to educate them about their options, including short sales, or deed-in-lieu of foreclosure. Foreclosure is the absolute last resort and in all cases, we provide relocation expenses to the owners and do our best to ensure a transition to other affordable housing.

MRF is ultimately the best outcome for struggling homeowners because we will reduce principal below market value in order to restore some of the lost equity to the homeowner, which is achieved through a soft-second mortgage with anti-flipping provisions. It also achieves permanent long-term affordability for the homeowner and stability for the neighborhood. MRF is managed by four high-capacity non-profits who have been working in communities for decades and are community development experts. Therefore, as we scale up MRF and demonstrate that principal reduction is a sustainable modification solution for struggling homeowners, we will share these lessons more broadly so that they can inform the national debate on principal reduction.

Access to Mortgage Credit

Ultimately, the foreclosure system only works if there is mortgage credit available for homebuyers and investors to purchase properties. Vibrant communities need new homebuyers to help communities grow and stabilize prices. As we are dealing with the foreclosure crisis, we are also working through myriad issues related to the availability of mortgage capital. Currently, we are seeing a dramatic tightening of lending standards in the neighborhoods that have been hardest hit by the foreclosure crisis, many of which are minority and low-income. Creditworthy borrowers are often unable to access mortgage capital in these neighborhoods. This translates into a much longer period of time for these neighborhoods to stabilize due to the inability, but not unwillingness, of buyers to purchase properties.

We believe it is critical to ensure there are responsible, mainstream lending products. However, we are concerned about the potential impact of overly strict lending and downpayment standards on future mortgages and borrowers. The Consumer Financial Protection Bureau is currently working on final rules for Qualified Mortgages (QMs) and Qualified Residential Mortgages (QRMs). Both rules have the potential to set up new barriers to homeownership that could effectively lock out low-income, moderate-income and first-time homebuyers. For example, a strict 20 percent down payment requirement would be devastating in low-income neighborhoods because it will take years for the average family to save such an amount, even if that family has good credit and would otherwise be able to responsibly support mortgage payments. In 30 years, we have seen that loan characteristics, proper underwriting and homebuyer counseling are more important predictions of loan performance than the size of the down payment. We recommend that the regulators focus on these characteristics as a way to determine QRMs, not down payment size. Let's not let the pendulum swing too far the other way, shutting out otherwise qualified borrowers.

Conclusion

Enterprise will continue to look for ways to help families and communities recover from this devastating foreclosure crisis. We will need many tools to address this problem, including MRF, for-profit and nonprofit partnerships for REO-to-rental and responsibly provided mortgage credit to the hard hit communities. Neither the housing market nor the broader U.S. economy can fully recover without addressing this debilitating foreclosure crisis. We look forward to continuing to work with you to address this problem. Thank you.

Enterprise is a leading provider of the development capital and expertise it takes to create decent, affordable homes and rebuild communities. For 30 years, Enterprise has introduced neighborhood solutions through public-private partnerships with financial institutions, governments, community organizations and others that share our vision. Enterprise has raised and invested more than $11 billion in equity, grants and loans to help build or preserve nearly 300,000 affordable rental and for-sale homes to create vital communities. Visit www.EnterpriseCommunity.org and www.EnterpriseCommunity.com to learn more about Enterprise's efforts to build communities and opportunity.

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Pat Quinn, *Governor*

Testimony of Mary R. Kenney, Illinois Housing Development Authority (IHDA) Executive Director

May 7, 2012 – Subcommittee on Capital Markets and Government Sponsored Enterprises

Thank you, Chairman Garrett, Ranking Member Waters and members of the subcommittee. My name is Mary Kenney and I am the Executive Director of the Illinois Housing Development Authority (IHDA).

I want to start today by giving you a brief background on my agency and the work that we do, and talk a bit about what we are doing specific to the foreclosure crisis. Like most HFAs, IHDA started out as a bonding authority. It was created in 1967 with a very clear and concise mission: to create and preserve affordable housing in communities across Illinois. In its infancy, IHDA had just a dozen employees and very few assets. Today, IHDA has more than 260 employees and more than $2.5 billion dollars in assets.

Since 1967, IHDA has financed more than 200,000 units of affordable rental housing, comprising nearly 1,800 developments in every county in the State. A recent review of the State's rental inventory revealed that IHDA is currently responsible for more than 7 percent of the rental stock in Illinois: that's one in 14 apartments. We do this in partnership with the private sector, acting as a lender, selling tax-exempt bonds and other mortgage backed securities in the capital markets to finance mortgages made to private developers. We also – in effect - function as the State's housing department, administering the federal low-income housing tax credit program, as well as 20 other state and federal housing programs.

In addition to its multifamily business, IHDA operates an affordable homeownership lending program. This program struggled in recent years. As the mortgage market accelerated and exotic loan products became the norm, our program – which offers a fixed rate, 30-year mortgage – could not compete. Despite pressure from Wall Street to change our lending practices in order to boost originations, we held firm to our model convinced that our clientele, which are first time homebuyers, was best served by a standard fixed rate mortgage. As a result, we could not compete with the private market that was providing low payment loans with to borrowers with little or no credit. In 2006, the program was all but shut down. Today, the program is again thriving providing needed liquidity to a market that sorely needs it. Originations have gone from a mere $40M in 2010 to an expected to $250 million this year.

ILLINOIS' LEADERSHIP IN RESPONDING TO THE FORECLOSURE CRISIS

For the last several years, our work – as yours – has taken place against the backdrop of the foreclosure crisis that has shaken the housing industry to its core. The crisis is particularly acute in Illinois.

- The Chicago area has the nation's largest inventory of foreclosed homes. In Illinois, over 103,000 homes received a foreclosure filing in 2011, or one in every 51 homes – ranking Illinois eighth in the nation.[1]
- As of December 2011, there were approximately 97,000 properties bank owned or in some stage of foreclosure in the Chicago metro area.[2]
- Nationally, Core Logic found that the home price index fell by 4.7 percent in 2011. Illinois saw the greatest decline in property values last year, where prices fell by 11.3 percent.[3]

[1] RealtyTrac
[2] Ibid
[3] CoreLogic

With foreclosures and vacant properties at record levels in our state, my agency has focused its full attention on how to help homeowners and communities within our state, launching:

(1) three initiatives to help combat the rising tide of foreclosures; and

(2) two new programs aimed at reducing the number of vacant properties within our neighborhoods, stabilizing both the tax base as well as the community and the families within it.

And we believe that the GSEs can play a necessary and important role in assisting our work in both of these areas and making these programs successful.

Foreclosure Prevention

Hardest Hit Fund (HHF)

Illinois was lucky enough to be one of the 18 states selected to receive Hardest Hit Funds from the US Treasury. In September of last year, IHDA launched the *Illinois Hardest Hit Program* as a financial lifeline for those families burdened by job loss or reduced pay. With $445 million in federal resources, our program provides up to $25,000 in mortgage assistance to homeowners who have experienced an income reduction due to unemployment or substantial underemployment, allowing them to maintain their home while they work to regain employment and financial stability. The Program offers Reinstatement Assistance – a one-time payment of all mortgage arrearage, fees, and penalties – and help to the homeowner in managing their ongoing Monthly Mortgage Payment for up to 18 months.

To date, we helped more than 2,200 Illinois homeowners keep their home and we continue to provide assistance to new households at a rate of about 20 per day. I am very proud to say that Illinois now has the 2nd highest performing Hardest Hit Program in the nation, second only to California, which has nearly three times the number of staff and allocated dollars.

Illinois Foreclosure Prevention Network (IFPN)

What we discovered through our marketing of the HHF Program and the outreach on our other foreclosure prevention efforts is that for families facing foreclosure, there is a huge amount of fear, distrust and denial. And unfortunately, the fear and distrust is not unfounded. Mortgage scams and fraud continue to be a significant issue in the marketplace. Homeowners simply don't know where to turn or who to trust.

To address this issue, earlier this year under the leadership of Governor Quinn, we launched the *Illinois Foreclosure Prevention Network (IFPN).* This Network has two important goals. First, to coordinate in one place the myriad of foreclosure prevention resources available in Illinois. The alphabet soup of HAMP, HARP, HHF, and other resources may make sense to us, but they are very intimidating to someone facing this difficult situation. The second goal is to strongly brand and market the Network as a safe and reliable resource that can provide homeowners free access to one-on-one counseling and legal assistance.

The Network is supported by a website – www.KeepYourHomeIllinois.org and a toll-free number – 1-855-KEEP411 – to help struggling homeowners access the services and programs available. It also hosts foreclosure mitigation events where homeowners receive one-on-one counseling, access to loan servicers who can discuss loan modifications and work-out agreements on the spot, help with Hardest Hit Applications, legal advice and more – all free of charge. The Network includes paid advertising, earned media, social media and other outreach. Since the Network launched, 21,600 Illinois homeowners have been connected to resources, including assistance from qualified, HUD-certified housing counselors.

Mortgage Resolution Fund (MRF)

In addition to its work on HHF and IFPN, the State has partnered with a number of entities from the private sector - including Enterprise, who you heard from earlier - on a very innovative program utilizing HHF funds. We set aside $100 million in Hardest Hit dollars in order to create the *Mortgage Resolution Fund Program (MRF).*

In simple terms, the program aims to keep families in their homes by utilizing HHF Funds to purchase delinquent mortgages at a discount; and then leveraging that discount to permanently modify the mortgages of qualifying households to an affordable level.

The Fund (MRF) recently made its first purchase of a pool of loans and is in the process of boarding those loans and utilizing the lower principal balance, to temporarily modify the loan such that the monthly payment is affordable to the existing homeowner. If the homeowner is successful in meeting their mortgage payments for a period of six to nine months, the modification will be made permanent. The hope is to then sell the new, seasoned loans and revolve the loan fund so that it may purchase more loans.

This program is the first of its kind and is the only program in the nation that utilizes the current, reduced market value of the property for the benefit of the homeowner so that they can stay in their home.

Role for the GSEs

Over 100,000 new foreclosures were filed in Illinois last year. We believe that stopping the flow of new REOs is the best and most cost effective approach to combatting the plague of vacant properties destroying our neighborhoods.

And the GSEs have an important role to play in this regard. To date, all of the loan purchases made have been through the private sector. In order to work more efficiently, and to bring the program to scale, we believe that the GSEs must participate by selling pieces of their portfolio at the current true market rate. By selling these distressed mortgages, they will enable communities to leverage these discounts, write down loan balances and re-underwrite mortgages to keep families in their homes.

Access to the GSEs distressed mortgages could make a significant difference in the housing market while fulfilling the federal government's objectives by:

- Reducing the REO portfolios of the GSEs and FHFA;
- Stabilizing the overall housing market by reducing the number of vacant properties on the market;
- Promoting private investment in local housing markets through the significant partner contributions to the program; and
- Maximizing value to taxpayers by using HHF, a federal resource currently being used to fund mortgage payments to commercial banks, to assist federally-held mortgages.

Work on Vacant Properties

IHDA is also helping communities struggling with the aftermath of foreclosures, working to alleviate the huge inventory of vacant properties. On average, the value of surrounding properties on the same block as a foreclosed property can drop in value between \$8,000 to \$10,000[4], acting to destabilize entire neighborhoods.

<u>NSP</u>

IHDA received a total of \$58 million under the federal Neighborhood Stabilization Program. Through this program, we have worked to return vacant properties to the

[4] Federal Reserve Bank of Cleveland

market and help spur redevelopment, and we have done this in direct partnership with the communities across the state. Illinois has committed resources to re-develop over 450 vacant, foreclosed and abandoned properties to help low-, moderate- and middle-income households access affordable housing. And we are now leveraging these investments through an innovative new state program.

Building Blocks

In addition to NSP, Governor Quinn recently launched his own program known as the *Illinois Building Blocks Pilot Program*. Building Blocks is a multifaceted and comprehensive approach designed to help communities and their residents along every phase of the foreclosure continuum.

One of the lessons we learned through NSP is that the more concentrated the approach, the more effective it can be. Accordingly, we selected six communities for the pilot, using factors such as: (1) community support; (2) existing re-development activity; (3) foreclosure heat; (4) vacancy rates; (5) existing market; and (6) recent job creation.

The program employs a three-pronged approach within the chosen communities. First, it aggressively targets existing resources to struggling homeowners through the *Illinois Foreclosure Prevention Network (IFPN)* in an effort to curb additional foreclosures. Second, the program provides direct financing to developers willing to acquire and rehabilitate vacant homes. Finally, the program provides a robust and aggressive homebuyer financing package – including $10,000 in down payment assistance – for homeowners purchasing a vacant property in these communities.

The goal is to stop the flow of new vacant properties[5] and restore existing vacant properties to productive use by shepherding the process at each stage – acquisition, rehabilitation and purchase.

And, while framed as a pilot, we believe that this program builds a replicable strategy to help stabilize neighborhoods, protect property values, maintain the existing tax base and preserve affordable housing stock.

Role of the GSEs

One important way the GSEs can help states address the vacant properties in their communities is by assembling available properties by zip code and making them available for bulk purchase at a reduced rate through governmental entities that agree to assist in financing their acquisition and rehabilitation by private entities. This would allow states (or local governments) to address large lots of vacant properties in their communities in a way that is consistent with local planning and will have a real impact. While several of the large banks have engaged and offered reduced or even free access to their REO portfolio, we have not received the same feedback from the GSEs.

While we are very excited that Chicago has been chosen as one of the pilot communities for the REO to Rental pilot program, we have the following observations:

- A scattered approach will not be effective. We learned through NSP that a more targeted approach, specifically addressing the needs and concerns of a particular community is most effective. Our understanding is that there are currently 99 properties in Chicago in the program, scattered throughout the region. This is

[5] The GSEs could further this effort by allowing MRF to purchase delinquent loans within the zip codes targeted to facilitate a modification of the purchased loan and allow the existing homeowner to stay in their home.

not enough to provide a critical mass and will likely have no effect on any given neighborhood.

- A local and leveraged approach is optimal. So many resources have been dedicated to this issue that a coordinated and leveraged approach will best serve to protect the public interest and stretch the taxpayer's dollar to maximum effect.
- A multi-tiered approach will be required. It isn't enough to focus on one issue – be it foreclosure prevention, or REO dispensation, or homebuyer support. We need to leverage all three elements.

The Need for More Family Housing

The tens of thousands of vacant properties in Illinois are a constant reminder of the families that have been displaced through this crisis and the significant need for affordable, family rental housing. The number of severely cost-burdened low-income renters has grown dramatically just as affordable housing stock has shrunk over the past decade.[6] And now the foreclosure crisis - in Chicago, especially - has wreaked havoc just not on single family residences but on small multi-unit buildings that play a significant role in providing decent and affordable housing to our families. The need for larger, affordable rental units to house these displaced families is larger than ever.

Role of the GSEs

The Congress can play a significant role in helping HFAs to address this issue. A bill has been presented on several occasions allowing the FHA Risk Share Program to be credit enhanced by GNMA. The Risk Share Program is a partnership between the FHA and local HFAs in which the HFA underwrites the mortgage and FHA and the HFA share the risk of default. The program has been very successful with very few incidents of default, and is presents less risk to the federal government as compared to all other FHA loans.

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[6] "The State of the Nation's Housing, Joint Center for Housing Studies at Harvard University, 2011

Currently, GNMA cannot credit enhance these Risk Share loans. Allowing a credit enhancement by GNMA could lower the borrowing costs of the HFA by up to 200 basis points, resulting in more competitive products for the private sector and, ultimately, more affordable rents. In addition, the CBO has found that this proposal would come at no cost to the Treasury and would provide over $20 Million in savings over ten years. We believe that these savings will be even greater.

It is logical to assume that if the loans are not underwritten through the Risk Share Program by the HFAs, they would be underwritten by HUD directly as a 100% risk to FHA and still credit enhanced by GNMA, as is standard practice. By allowing Risk Share loans to be credit enhanced under the same terms they would otherwise be able to achieve, Congress would be reducing the risk and involvement of the federal government in affordable housing by allowing the HFAs, who are best suited to meet the needs of their community with this innovative tool, to take on a portion of that risk.

The change represents a good government, common sense approach in encouraging not just a public-private partnership to development but expanding the ability of the States to address needs within their communities more directly.

CLOSING

In closing, I want to emphasize three things.

First, I want to emphasize how important it is that the federal government forge a partnership at the state and local level in trying to craft solutions to this crisis. Local solutions cannot be crafted from Washington. The best way to stabilize our economy and our communities is to utilize existing public-private partnerships that further the goals of the Administration by providing for private ownership and maintenance with long-term public oversight to ensure that stabilized communities stay that way.

HFAs have long provided that bridge. Over many decades, we have forged successful partnerships with the private sector in helping to provide needed resources to our communities. It is for this reason that the federal government turned to the HFAs to spur the economy and development during the economic downturn. And the HFAs responded. At my agency alone, we created 4,733 units of new housing, leveraging nearly one billion dollars in new construction and creating 4,855 new jobs. HFAs can continue to provide that bridge, albeit in response to a new crisis, providing a local and tailored response to target resources in the way that is the most efficient and has the most impact.

Second, maximizing return (or minimizing losses) on one particular asset may not act to maximize return on the GSE portfolio as a whole. In other words, stabilizing property values within the overall market will add value and stabilize the GSEs' remaining portfolios. To suggest that maximizing the value of one particular asset necessarily maximizes the value of the GSEs' overall portfolio or reduces overall losses seems to miss the larger picture. Moreover, I want to note that much of what we are asking the GSEs to do--namely, sell delinquent notes and REOs at a discount--is something that the market (private sector) is already doing, suggesting that the market value may not be as high as the GSEs believe.

Finally, I know that there are those that argue that the federal government has no role to play in stabilizing the housing market and should withdraw from any further intervention. They believe that it would be better to allow the market to "hit bottom" and correct its course. But I can't help but ask "better for whom?" Better for the market? Better for Wall Street? Maybe. But certainly not better for the families who are losing their homes. Certainly not better for the countless Americans who have lost their savings and equity. Our economy has lost $7 Trillion in savings over the last four years. That's almost half the nation's GDP. It seems that any gains made on Wall Street will be offset by corresponding losses to American families.

community
ASSOCIATIONS INSTITUTE

May 7, 2012

House Financial Services Committee

Subcommittee on Capital Markets & Government Sponsored Enterprises

Hearing entitled "An Examination of the Federal Housing Finance Agency's Real Estate Owned (REO) Pilot Program"

Statement of Mr. Dick Pruess

On behalf of

Community Associations Institute

Chairman Garrett, Ranking Member Waters, and members of the subcommittee, my name is Dick Pruess and I live in the Castlegate Homeowners Association in Pasadena, California. Thank you for the invitation to testify this morning on behalf of Community Associations Institute (CAI).

CAI is the only national organization dedicated to supporting community associations, association homeowners, and the more than two million volunteers who serve their neighbors on association boards. There are approximately 62 million residents of community associations living in 315,000 individual associations across the nation. Community associations are organized under state law as a homeowner, property owner, or condominium association or a housing cooperative.

I am the volunteer chairman of CAI's California Legislative Action Committee. We represent the interests of the nine million individual residents of community associations in our state. As a homeowner living in a community association, I believe all owners should be active in protecting their investment in their home. Working both locally and at the state level in Sacramento helps me, my community association, and the 49,000 community associations in California. I am pleased extend this work to the U.S. Congress.

Our homeowners and communities have faced substantial challenges throughout the housing crisis stemming not only from the collapse of home values but also the complete breakdown of the foreclosure process. I believe considering the unique perspective of community associations will be helpful as the Federal Housing Finance Agency (FHFA) continues its pilot program to dispose of enterprise REO through bulk sales to investors.

Impact of the Housing Crisis on Community Associations

All homes in a community association are bound by certain deed-based covenants, conditions, and restrictions, commonly known as CC&Rs, as well as by association by-laws and other rules and regulations adopted by the association's board. Application of these requirements ensures all residents—both homeowners and tenants— enjoy access to amenities, that common property is maintained, critical association services are funded, and reserves are set aside to cover significant future costs.

Community associations also undertake responsibilities such as road maintenance, storm water management, waste disposal and other similar services that otherwise are the responsibility of units of local government. These activities save local taxpayers billions of dollars across the country each year. To fund these association services, all association owners pay assessments, which are lien-based. Research shows that in 2009, association homeowners generated more than $41 billion in funds to operate their communities while also maintaining approximately $35 billion in reserve accounts.

It is generally accepted that a foreclosure or an abandoned home reduces property values in a neighborhood. The resulting sale of these distressed properties only adds to downward pressure on home prices. Otherwise stable owners watch as what little equity may be in their home vanishes. It is even worse for those owners who already owe more than their house is worth. This holds true for both association and non-association homeowners.

How the Foreclosure Crisis Impacts Community Associations

Unfortunately, these negatives are compounded in community associations when owners of distressed properties fail to pay their share of association expenses.
As the housing crisis has evolved to a continuing foreclosure crisis, community associations have faced significant shortfalls in assessment income and report that

assessment delinquencies have increased at an alarming rate. Without funds to continue association services, the financial stability of these communities is jeopardized.

Assessment delinquency rates have almost tripled since 2005. According to a recent nationwide survey of community association managers, 63 percent of associations now have delinquency rates exceeding 5 percent, up from 22 percent of associations in 2005. One in three associations has a delinquency rate exceeding 10 percent, and for almost 1 in 10—or close to 30,000 associations nationally—the rate is more than 20 percent.

In response to these high delinquency rates, community association residents are increasing their regular assessments, voting for special assessments, deferring critical maintenance projects, and reducing contributions to reserve funds. These actions, which residents deem necessary to ensure continuance of critical association functions, have increased housing costs for association homeowners and generated considerable controversy within communities. However, such actions can damage the long-term stability of a community and are not a solution to the crisis that association residents face.

If this is not a good solution, why are these homeowners still choosing this path? The answer to that question is straightforward: Associations must still pay their bills. Storm water systems must be maintained; insurance premiums must be paid; residents cannot live in condominium units when the building has no water or electricity; trash collection cannot be halted; and common property must be maintained. These are not optional services or luxuries that can be scaled back or eliminated to save money. These are mandatory community costs.

To illustrate these points, I have included as an appendix to my testimony results from a recent survey of approximately 120 community association managers and association management companies in California. We asked about the impact of the crisis on their client associations and how this impacted homeowners. I believe you will find the results of this survey to be informative; I personally found them astounding.

Lender and Servicer Behavior Has a Profoundly Negative Impact on Associations

It is frustrating for residents of associations when their neighbors stop paying assessments for their share of community costs. What is infuriating though is when homeowners leave their property after receiving a foreclosure notice and the lender or servicer allows the property to remain vacant for hundreds of days before completing the foreclosure. The association cannot track the prior owner and the other responsible parties will not foreclose. The property languishes, and what maintenance and care it receives come from neighbors and the association. Unfortunately, even when the foreclosure is completed and the property moves into a REO portfolio, association homeowners will more likely than not continue to shoulder the burden of property upkeep. According to a second CAI survey of community association managers, associations receive timely payment of assessments on less than 30 percent of REO properties. That's tens of thousands of homes nationally.

The failure of lenders and servicers to maintain REO in community associations and act as responsible property owners is consequential. As assessments increase because fewer owners can contribute to the association's expenses, more owners fall delinquent, thereby increasing the pressure on the association's ability to perform its functions. In many instances, as association assessments increase, owners are forced to choose between paying their assessments and paying their mortgage as they cannot afford both. This can be a significant problem for owners with a fixed income. The choice in a normal market might be for homeowners to sell; however, that option is not always a viable one given the depressed state of home values and the substantial number of owners with negative equity.

Fraudulent foreclosures and violations of servicing standards have also substantially harmed association homeowners. Regrettably, in many of these instances there was no reasonable opportunity to prevent foreclosure or for a borrower to qualify for or sustain a loan modification. Lenders and servicers cut corners and were caught by federal and state regulators. This added almost a year to the completion of these foreclosures, forcing more association homeowners to pay extra housing costs.

By delaying the foreclosure process or failing to record a change in title promptly after foreclosure, lenders and servicers avoid paying their fair share of association costs. CAI's members do not believe it is equitable to allow the remaining owners in the neighborhood to pay higher housing costs that in most cases benefits and protects the value of these properties. Lenders and servicers must meet their obligations and not push these costs on their neighbors. The inequity is even greater when homeowners must pay higher housing costs due to lender and servicer fraud and negligence.

Lender and Servicer Failures Could Jeopardize FHFA Bulk Sales Plan in Associations

It is this failure on the part of lenders and servicers to move hopeless foreclosure cases through the process, to maintain property, and act responsibly that may frustrate plans for bulk sales of enterprise REO in community associations. CAI believes that FHFA and its partners in the bulk sales pilot program should consider the unique aspects of community association property ownership in the design and execution of these programs. Otherwise, community association homeowners in states with high foreclosure rates or which have been hardest-hit by the housing crisis may not receive the intended benefit from efforts to put REO properties back into commerce.

Bulk Sales Program Should Support Community Association Model of Housing

To be successful, CAI's members believe an enterprise REO bulk sales program must both account for and correct lender and servicer behaviors that have harmed homeowners in community associations. Correcting these failures upfront will minimize frictions that may frustrate bulk sales of enterprise REO in community associations and will ensure that community associations can participate as full partners in moving REO back into commerce and stabilizing the larger community of which the association is a part.

Satisfy Outstanding Liens Prior to Sale

It is very common for community associations to place a lien on vacant and abandoned property for assessment delinquencies and other violations of the association's CC&Rs. Treatment of association liens during foreclosure can vary from state to state as well as by form of community association depending again on state statute. Several states have adopted legislation giving super-lien status to association liens. These statutes generally allow an association to collect up to six months worth of delinquent assessments, subject to certain restrictions. Other states provide for different treatment of association liens and payment of attorneys fees while the federal bankruptcy code adds an additional layer of complexity. Given the scale of the crisis in many community associations, it should come as little surprise to federal policymakers that associations are seeking to use every legal remedy available to recover assessment delinquencies on vacant and abandoned properties as well as REO.

To avoid needless delays and complications in closing bulk transactions on enterprise REO, FHFA must ensure all outstanding association liens and other recoverable amounts have been satisfied before completing a bulk sales transaction. Unless these liens and other recoverable debts attached to the property have been satisfied under applicable state law, any purchaser of this REO will likely be subject to legal action by the association to recover these amounts.

Resume Timely Foreclosure and Recordation of Title Changes

Given the state of the housing economy, it may seem counter-intuitive to call for a return to a functioning, legal foreclosure process, but for residents of community associations this is an imperative. These homeowners cannot continue to face higher housing costs, which places them at greater risk of default and foreclosure, as lenders and servicers allow vacant and abandoned properties to lie fallow month after month.

Our experience has been that servicers and lenders take only limited if any action to counter the community blight created by allowing properties to languish in foreclosure. CAI's members cannot comprehend how federal financial regulators seemingly permit the rapid dissipation of value of lender collateral in this manner. When a home cannot be saved, delaying the foreclosure process harms the borrower in default, the lender, and association residents.

When a foreclosure auction is completed and title transferred to either Fannie Mae or Freddie Mac, the enterprises, as property owners, are required to pay association assessments. By doing so, the enterprises diminish the risks that other borrowers in the neighborhood will default and also protect the value of their collateral. By ensuring properties move through foreclosure properly and promptly, the enterprises can enhance the return on REO sales and provide investors with properties that are in good standing with the community association.

Structure of Bulk Sales Contracts Should Support Responsible Ownership by Investors
CAI applauds FHFA for structuring the first bulk sales pilot transaction to require that investors be pre-qualified prior to bidding. Pre-qualification of investors ensures that bulk sales of enterprise REO are made only to well-capitalized, competent investors with demonstrated experience managing a substantial residential real estate portfolio.

Given the unique aspects of property ownership in a community association, CAI urges that potential investors also be required to demonstrate experience in managing property located in a community association. Investors should be required to demonstrate a working knowledge of community association law and community management industry standards (or how this expertise will be obtained) prior to bidding on any transactions with substantial amounts of REO located in a community association.

Further, the pre-qualification process and bulk sales contracts should anticipate purchaser business failures and provide to the greatest extent practicable for maintenance and disposition of properties held by a purchaser that has filed for bankruptcy protection. Associations currently experience significant difficulty in learning who actually controls vacant, abandoned or REO properties. If an investor fails, the bankruptcy process could result in questions of title to properties and other variables that will put the community association in an even more untenable situation than currently exists.

Policies Supporting Responsible Ownership

CAI strongly recommends that investor purchasers acknowledge basic contractual obligations of common ownership in community associations, including timely payment of association assessments. As a goal of the bulk sales pilot program is stabilizing communities, CAI offers the following recommendations on policies that support responsible ownership of investor rental properties in community associations:

» Timely payment of assessments on association properties is imperative.
» Purchasers must preserve, protect, maintain, and insure properties according to all applicable association requirements at all times, including during any vacancies.
» Purchasers (or the enterprises) should provide a property report indicating the condition of the property being purchased, plans to remedy deficiencies, and a timeframe in which restoration of the property will occur.
» Purchasers must provide the association with a single point of contact to facilitate prompt response and curative action for all violations of CC&Rs, rules, and regulations.
» Purchasers must ensure lease terms comply with CC&Rs, rules, and regulations, including any applicable association lease riders (i.e. CC&Rs routinely require that tenants comply with association governing documents, with failure to do so constituting a default under the lease).

Access to Mortgage Credit for Condominium Unit Owners

CAI strongly urges FHFA and the Administration to ensure that current condominium project approval standards enforced by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), and the enterprises be revised to account for rental units under this program. The FHA, VA, and both enterprises require a condominium project to meet specific standards prior to insuring, guaranteeing, or purchasing individual condominium unit mortgages. In short, if the condominium violates program standards, access to mortgage credit is substantially restricted for unit owners.

There are numerous requirements under current FHA, VA, and enterprise condominium standards that could be violated by bulk sales of REO in condominiums. These include limiting to no more than ten percent the number of units in the condominium owned or controlled by a single entity and mandatory owner occupancy standards. In particular, FHA considers REO in its owner occupancy standard, so simply moving these units from REO to investor ownership will continue the violation of FHA standards. Condominium associations across the country are already grappling with stringent FHA condominium rules. Unless these and similar guidelines at the enterprises are modified to account for sales under this program, these unit owners will continue to have limited access to mortgage credit.

Protecting the Rights of Condominium Unit Owners

CAI strongly recommends that purchasers be contractually bound to respect and protect the rights of resident owners in condominiums. FHFA should take appropriate action to avoid investor controlled condominium associations. In these cases, investor owners control a majority of voting rights within the association, which may be sufficient to unilaterally dissolve the association, degrade owner rights and duties, or otherwise conduct the affairs of the association irrespective of resident owner interests or involvement. FHFA must avoid any potential for the rights and interests of resident owners to be degraded by investor owners.

Conclusion

The failure of lenders and servicers to adequately preserve and protect their collateral before, during, and after foreclosure has left community associations little choice but to engage in litigation to seek judgments on assessment arrearages or to judicially seize properties. Absent corrective action on the part of lenders and servicers, community associations will continue to seek redress for payment of bad debt and other costs in property disposal scenarios.

CAI's members do not seek to impede the progress of any program to support bulk sales of enterprise REO. Rather, CAI's members believe such a program could be of significant benefit to housing markets and to homeowners and tenants living in community associations. However, our members reject the notion that community association residents can be coerced or expected to fund property maintenance and asset protection that is by contract a responsibility of another party. This is harmful to homeowner interests and creates instability in affected communities.

Private investors purchasing REO in bulk are already encountering significant legal obstacles to ownership in states and municipalities where the community association model of housing is commonplace. Investor purchasers in California, Nevada, Arizona, and Florida are facing legal actions by community associations seeking to recover arrearages. Until these outstanding matters are satisfied, investor purchasers are often unable to obtain clear, unclouded title to properties. Implementing the policies recommended above will reduce these frictions in an enterprise REO bulk sales program, improving returns for the enterprises and providing stability for the homeowners who have shouldered the financial burden of maintaining these properties.

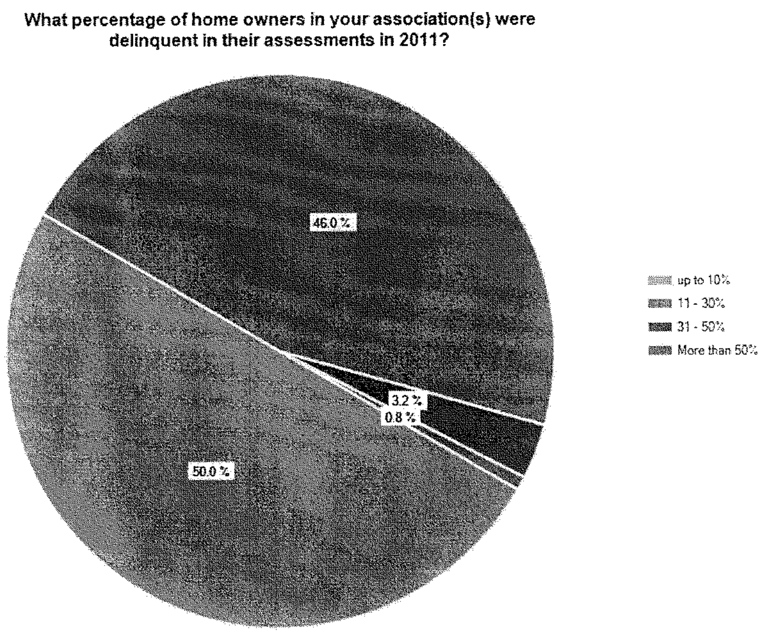
Additionally, federal financial regulators should contribute to the success of a bulk REO sales program and lessen the negative impact of foreclosures in community associations simply by requiring that lenders and servicers fulfill their contractual obligations in a timely manner. The Office of the Comptroller of the Currency (OCC) has taken such a step by issuing OCC Bulletin 2011-49, which instructs lenders and servicers to meet obligations to community associations under private pooling and servicing agreements as well as enterprise seller/servicer guidelines. The OCC's bulletin is an appropriate first step to address what is a widespread crisis for community associations.

Fannie Mae recently reminded its servicers of their obligations to community associations starting from a borrower's first missed payment to recording a change in title to reflect Fannie Mae's ownership of the property. Interestingly, the bulletin largely restated existing requirements under Fannie Mae's Seller/Servicer Guidelines, instructing servicers to be in compliance with those guidelines within approximately 90 days.

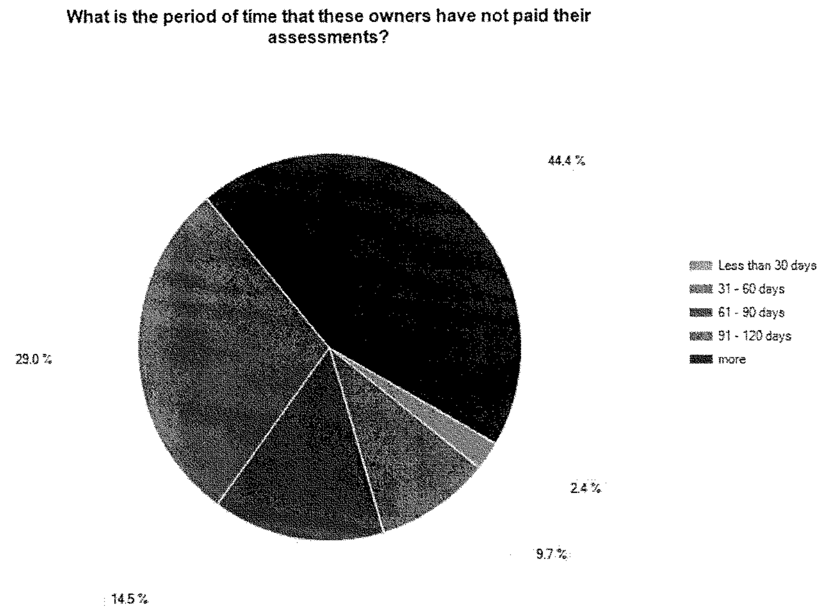
CAI members encourage that all federally insured depository institutions, mortgage servicers, and state chartered institutions subject to federal supervision demonstrate compliance with property preservation requirements for REO or properties in foreclosure. Failure to meet these obligations may constitute a safety and soundness concern as institutions face heightened exposure to litigation and reputation risk while the value of the institution's real property assets is degraded.

On behalf of CAI's membership, I express our appreciation for the thoughtful and open process being employed to craft an enterprise REO bulk sales program to the benefit of households across the country. This is a critical issue for community associations and CAI's members will continue to work as partners with the federal government to ensure the program's success.

Appendix A

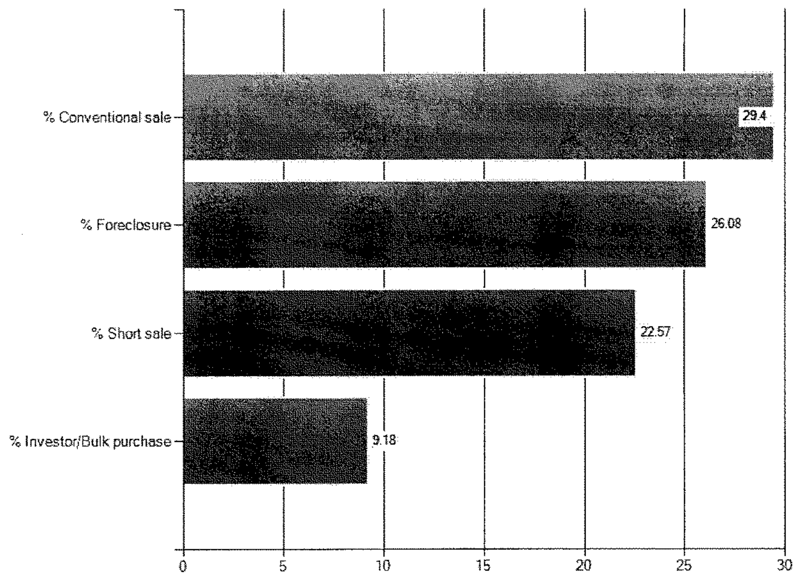


- Half of HOA's surveyed had delinquencies of more than 10%.
- 46 percent of HOA's surveyed had delinquency rates between 11 and 30 percent.



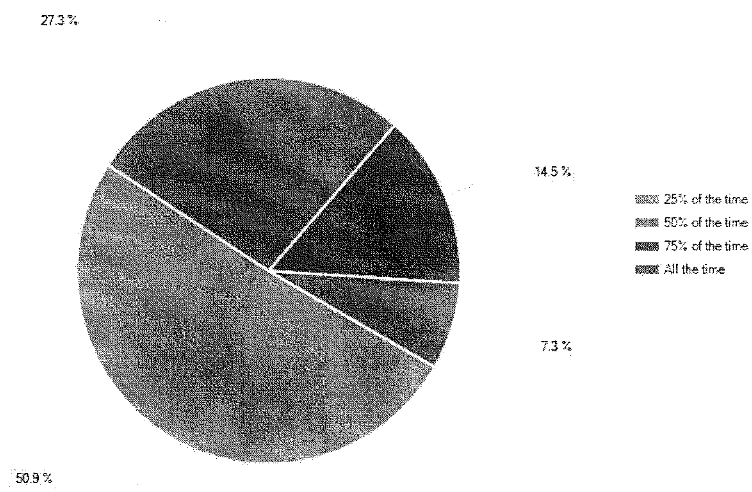
- » 97 percent of delinquent assessments are more than 30 days late.
- » 73 percent of delinquent assessments are more than 91 days late.
- » 44 percent of delinquent assessments are more than ***4 months*** late.

What percentage of units that have been sold this year were due to:



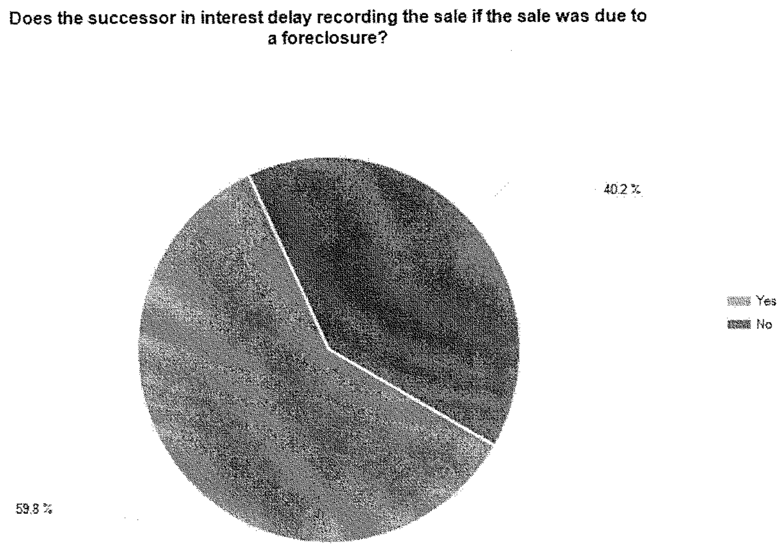
» 49 percent of all common interest development sales in 2011 were foreclosure and short sales.

How often has the lender not foreclosed even though the owner has vacated the unit or failed to make mortgage payments?

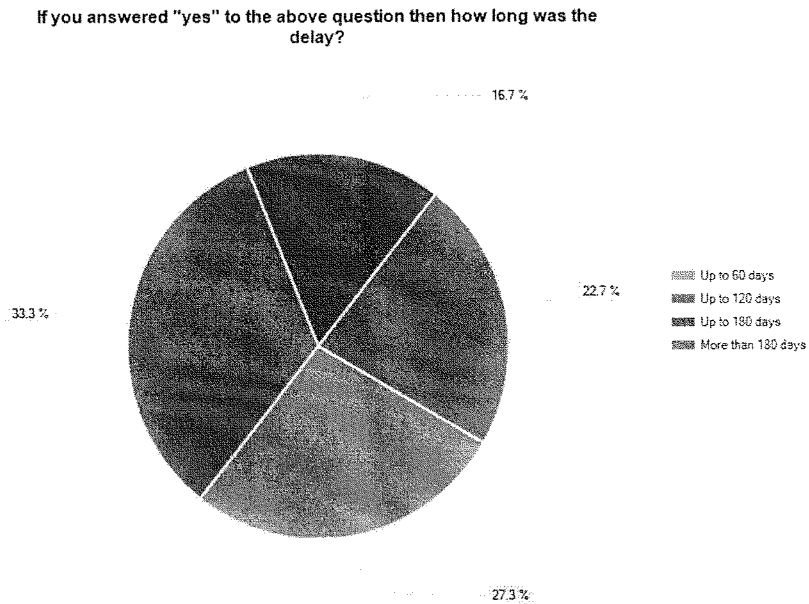


» Lenders routinely fail to foreclose on properties after vacated by the owner.

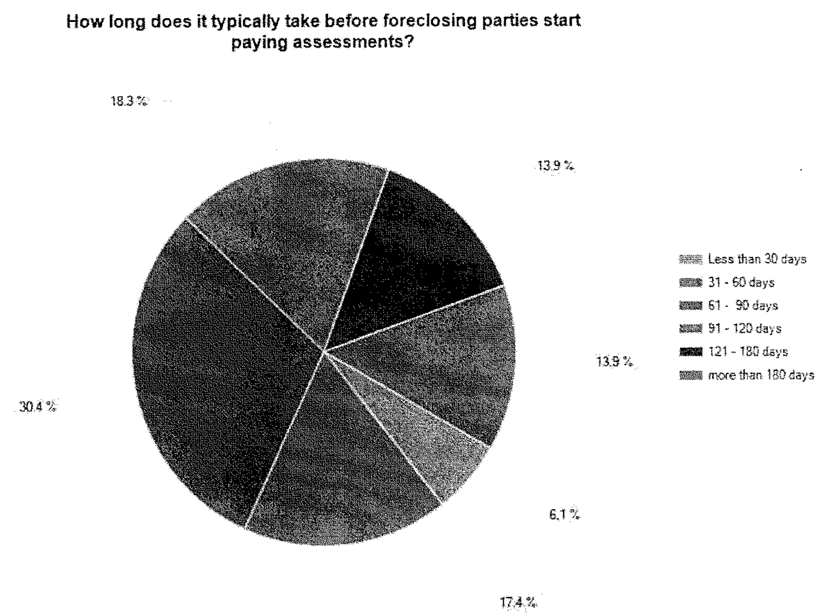
» 38 percent of communities report that lenders refuse to foreclose on vacant and abandoned properties more than 50 percent of the time.



» 60 percent of foreclosure sales are not recorded in a timely manner by the foreclosing party.

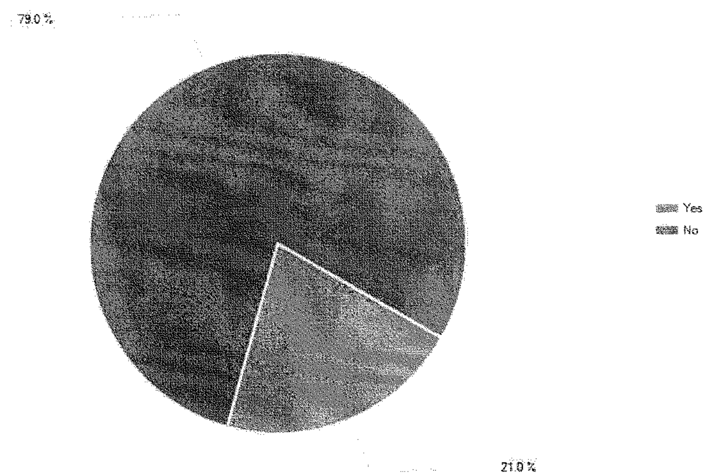


- » 73 percent of delayed foreclosure recordations were delayed more than 60 days.
- » *23 percent of delayed foreclosure recordations were delayed more than 6 months.*



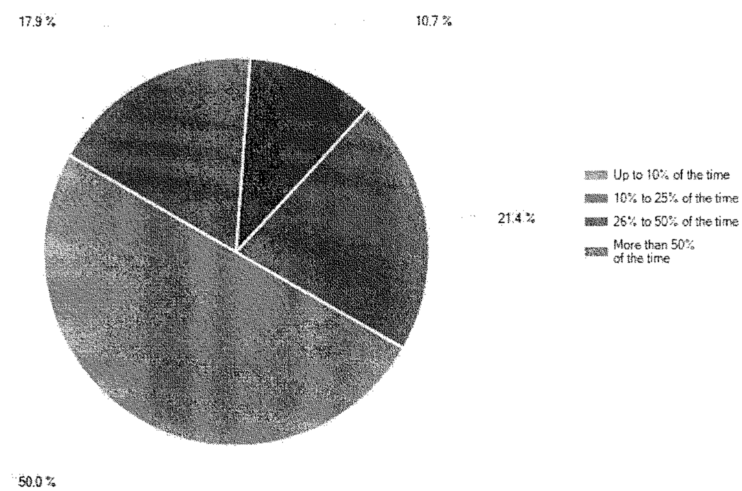
- 24 percent of the foreclosing parties begin to pay assessments within 60 days of sale.
- 76 percent of the time, assessments are not paid until more than 60 days after the sale.
- 28 percent of the time, assessments are not paid until more than 4 months after the sale.
- 14 percent of the time, assessments are not paid until more than 6 months after the sale.

Do the foreclosing parties pay ANY portion of the past due assessments?



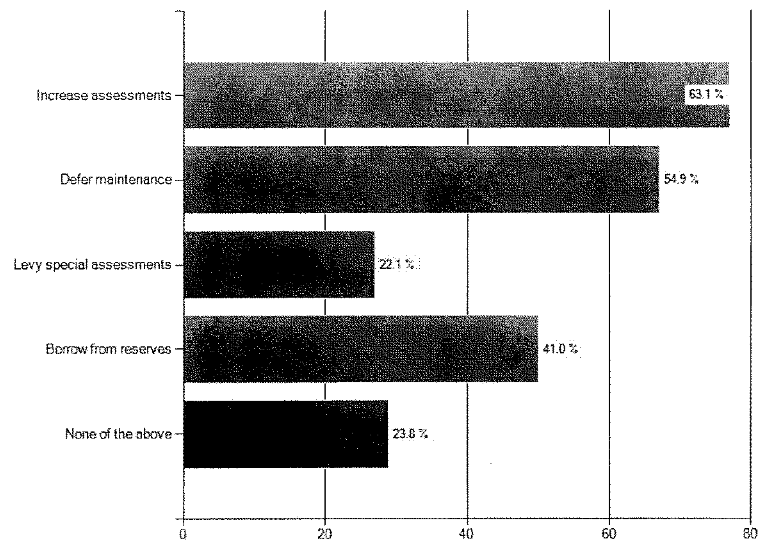
» 79 percent of the time, foreclosing parties fail to pay *ANY* portion of past due assessments.

If you answered "Yes" to the above questions then how often do the foreclosing parties pay?



» Of the foreclosing parties that do pay delinquent assessments, their "consistency rate" of payments varies from as low as 10 percent to as high as 50 percent of the time.

As a result of non payment of the homeowner assessments, did the HOA:



This chart illustrates the HARM that is done when foreclosing parties fail to timely record sales, leaving the HOA with no ability to identify or locate the new owner for purposes of invoicing assessments.

- 63 percent find it necessary to raise assessments, harming fixed income owners, perhaps to the point of causing them to become delinquent in their payments.
- 55 percent defer maintenance, drastically reducing the curb value of the properties and community, in addition to incurring future expensive repairs.
- Only 22 percent of HOAs can or elect to levy special assessments due to financial limitations of the association members.

- 41 percent of HOAs find it necessary borrow from their own reserves, if they have any. This method requires prompt repayment and supplants the very purpose of the reserve account which is for major rehabilitation of the community's physical plant.

- 24 percent of the time, no relief is available to make up for the loss of delinquent assessments. This eventually invites neighborhood blight, which ironically reduces the foreclosing parties' asset value in the property they now own.

Written Testimony by

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United States Department of the Treasury

House Committee on Financial Services
Subcommittee on Capital Markets and Government Sponsored Enterprises

Monday, May 7, 2012

Chairman Garrett, Ranking Member Waters and members of the committee, thank you for the opportunity to testify this morning.

Prior to joining the Department of the Treasury as Counselor to Secretary Geithner for Housing Finance Policy, I worked on housing policy in various capacities over the course of my forty-five year career. Most recently, I was the Director of Housing and Policy at the John D. and Catherine T. MacArthur Foundation headquartered in Chicago and, before that, spent much of my career as a professor of city planning and public policy at the University of North Carolina at Chapel Hill (UNC). During my long career at UNC, I took leave twice to serve in the Carter and Clinton administrations as a senior official at the Department of Housing and Urban Development (HUD).

Throughout my career, I have been involved with affordable housing issues, with combating predatory lending, and with broadening access to safe, sustainable mortgage credit. At the MacArthur Foundation, we invested millions of dollars to revitalize low-income neighborhoods right here in Chicago – communities that have been ravaged by a flood of foreclosures, exacerbated by the loss of jobs and incomes due to the financial crisis.

And so I thank you for holding this hearing to discuss the Real Estate-Owned (REO) Initiative, because I think this emerging phenomenon has the potential to help stabilize communities while expanding affordable rental housing opportunities. The Administration believes that the REO Initiative can help bring stability to some of the hardest hit neighborhoods and attract much needed private capital back to our housing markets. It can provide financial institutions, including the Government Sponsored Enterprises (Enterprises), with an alternative, cost-effective, channel to sell their foreclosed REO properties at scale in ways that complement ongoing neighborhood stabilization initiatives. In the process, it can create a supply of much needed rental housing for those families looking to rent, either out of choice or necessity. At its best, it can also help stabilize local housing prices by removing surplus homes from the for sale market. With the right set of incentives and requirements for investors, this strategy can spur the kind of long term investment that our communities need today.

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The REO Initiative is part of the Administration's broader efforts to help heal the housing market in the aftermath of the financial crisis. Our primary goal is to help prevent avoidable foreclosures and accelerate recovery in the housing market.

A core component of the Administration's housing policy is to help more Americans refinance their mortgages at today's low interest rates. Typically, when rates fall – as they have in recent years – homeowners refinance their mortgages. This helps put more money back in the pockets of American families, and, in turn, is one of the primary ways that lower interest rates can support an economic recovery. Since 2006, however, less refinancing has occurred than the fall in rates would suggest.

The Home Affordable Refinance Program (HARP) was designed to encourage more borrowers who are underwater on their mortgage, or have little equity in their home, to refinance at today's historically low rates. To date, HARP has helped more than one million homeowners refinance their mortgage– and we recently worked with the Federal Housing Finance Agency (FHFA) to expand and simplify the program's criteria so that we will be able to help even more borrowers.`

Difficult labor market conditions and other financial stresses in the wake of the crisis, however, have made it more challenging for many borrowers to continue to make their mortgage payments regardless of the level of interest rates. Today, one out of twelve homes with a mortgage is either in foreclosure or is seriously delinquent. We have seen this in Chicago, which has a foreclosure rate that is almost twice the national average.

The Home Affordable Modification Program, or HAMP, is a mortgage modification program created to help financially distressed borrowers avoid foreclosure. The Administration's programs, combined with private sector modifications spurred by our efforts, have helped approximately 5 million homeowners across the country receive assistance to avoid foreclosure. Here in Chicago, HAMP and other programs have led to more than 226,000 mortgage interventions since the program's launch in April 2009 – twice the number of foreclosures completed during this time.

In addition, given challenges with long-term unemployment, the Administration also announced last summer that unemployed borrowers with FHA loans could receive up to a year of forbearance on their mortgage payments, up from the previous maximum of four months. We also included the twelve months' forbearance requirement in HAMP. As a result, the Enterprises, as well as other major servicers, are now offering 12-months of forbearance for most unemployed homeowners, giving borrowers the breathing room they need to resume making their mortgage payment once they find new jobs.

We have also asked the FHFA to allow the Enterprises to participate in the principal reduction alternative of HAMP. Given the large percentage of outstanding mortgages that are currently backed by the Enterprises, it is important that they fully participate in this program. Principal reduction is an important tool to have at our disposal as we continue to repair the damage caused by the housing crisis. In many cases, principal reduction makes economic sense for both the homeowner and the lender – helping reduce investor losses and preventable foreclosures over the long term. That's the view of not only the Administration and others within government, but also many private market participants. The most recent quarterly survey from the Office of the Comptroller of the Currency showed that, of those mortgages held by private investors, nearly one in five that were modified reduced principal. Indeed, in the each of the last six months, more than 40 percent of non-GSE mortgages modified through HAMP included principal reduction.

And this is why the Administration believes it would be valuable to expand the availability of this option to homeowners who happen to have their mortgages backed by the Enterprises. It would not only help stabilize communities, but also reduce losses to the Enterprises and the taxpayer. As Secretary Geithner has recently said, the number of families who would benefit is not overwhelmingly large, but is significant and "any time we think there's a way to help more people stay in their homes, help facilitate transitions to other forms of housing, help repair and heal the damage, we're going to keep doing that."

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HARP, HAMP and other non-government programs have allowed millions of homeowners to stay in their homes. However, we know we cannot stop every foreclosure. As a result, we must work equally hard to find ways to reduce the impact foreclosures and distressed sales have on our neighborhoods and communities. There are a number of ongoing programs, including HUD's Neighborhood Stabilization Program (NSP), which helps support the rehabilitation of communities significantly impacted by foreclosed and abandoned homes. Because of these programs' success, the Administration proposed a $15 billion boost in broad-based neighborhood stabilization activities called Project Rebuild.

But these efforts won't be able to mitigate the impact of mass foreclosures on their own. As estimated by Amherst Securities, more than 3 million homes are currently in the foreclosure pipeline. Amherst Securities also projects that another 9 million homes are at risk of default over the next six years – what many call the "shadow inventory" -- and to address this real and potential supply, 3.1 to 5 million units of housing demand would need to be created over the next six years. This rate of home buying activity will be difficult to generate given the continued headwinds facing economic growth, continuing credit access issues, and the fact that many would-be-homeowners do not have the wherewithal to buy a home. Enabling investors to acquire these foreclosed properties will prevent them from sitting vacant, will help stabilize home prices, and will prevent neighborhoods from suffering additional blight. By allowing investors to purchase pools of foreclosed properties owned by the Enterprises and requiring those investors to rent the properties, the REO Initiative provides an alternative approach to addressing this significant oversupply in the market. It also provides the Enterprises and other holders of REO with an additional market for selling foreclosed properties.

There are several conditions that make this scattered-site, single family rental model an attractive business investment today. First, the economics of an investor purchasing a home for the purposes of renting it have become more attractive. In fact, home prices nationally are down by over 30 percent relative to home prices in 2006, while rents are now up significantly in certain areas. Research from the Federal Reserve demonstrates that this increase in rental demand is partially driven by the fact that the majority of Americans who have recently lost their homes transition to single family-rentals after foreclosure. We see this trend here in Chicago, where home prices have fallen about 35 percent due in part to the recent wave of foreclosures in the wake of the crisis, while rental vacancy rates are at a recent low of less than 5 percent.

Second, the supply of homes for sale today and potentially in the future present investors with the opportunity to purchase properties at a scale and geographic concentration that has not been possible before. To effectively manage a large, scattered-site, single family rental housing portfolio, investors must be able to spread their fixed costs across a larger set of homes – and the large volume of real-estate owned property provides an opportunity to build to economies of scale. Additionally, building to scale in a specific market allows not only for the fixed asset management costs to be spread over a greater number of properties, but likely reduces the aggregate amount of fixed costs. Due to the large amount of foreclosed properties that could potentially come to market over the coming years, investors may be able to achieve this scale and geographic concentration.

While the emergence of this buy and rent business model is primarily driven by private capital and entrepreneurial initiative, there is a public policy interest in supporting this phenomenon for the reasons discussed earlier, and the REO Initiative can provide this support in a number of ways. First, through this initiative the Enterprises can facilitate the aggregation of foreclosed properties into larger pools that can be purchased in bulk. Second, they can increase the transparency and awareness of where foreclosed properties are located. Third, they can create policies and regulations that support financing for these types of transactions. And finally, they can facilitate communication and coordination among the wide range of market participants that are necessarily involved in the development of such a large and complex undertaking.

However, current broad-based enthusiasm for the REO Initiative must be tempered by an appreciation for the inherent challenges in this business model. Investors and their partners must be properly equipped to deal with the complexities associated with managing and maintaining dispersed properties in a cost-effective manner. Moreover, as the character and local dynamics of real estate markets vary, it is important for investors to understand the markets in which they are investing. For example, it may not be a smart business decision for an investor from California to buy a cluster of REO properties in the Chicago market without securing a local operating partner with experience managing rental housing in the neighborhoods in which these properties are located.

Additionally, it is important to note that owners of foreclosed properties have traditionally sold their properties on a one-off basis through conventional retail channels. This conventional disposition strategy makes it difficult for an investor to scale a scattered site, single family rental business in a timely and cost effective manner. Absent a regular and predictable flow of bulk sales, it will be important to develop ways for the scattered site, single family rental business to function profitably within the retail market.

Because of these and other challenges, the Administration has worked closely with FHFA to help design and execute a pilot program to test investor demand for portfolios of geographically-concentrated REO properties. The Administration and FHFA have sought to do this in a way that allows FHFA and others to assess both the impact on communities and the financial return to the Enterprises relative to the value realized from transacting through the retail channel. To inform the design of the inaugural pilot, FHFA convened an interagency group that included participants from HUD, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Treasury Department, as well as executives from Fannie Mae and Freddie Mac. This group has engaged with the public through a Request for Information that received over 4,000 comments. We have conducted ongoing outreach with nonprofit housing and community development groups, investors, local government officials and other stakeholders to ensure that these important constituencies provide direct input on how best to structure the program.

I would like to highlight the effort that has been taken to establish high standards that investors must meet if they wish to participate. To realize the desired stabilizing impact on communities, we have to get more than just a good price for the properties. Investors must be responsible property owners. We want to encourage investment for the longer term that will sustain the repair and restoration of the hardest hit communities.

Three controls built into the pilot will be important to addressing this concern. First, strict bidder qualification requirements have been established that are intended to disqualify any investors who lack the experience and expertise to successfully manage large numbers of scattered site properties, or who have a history of behavior that could lead to bad results. This review includes an assessment of an investor's ability to provide tenants with housing counseling services and to provide credit bureaus with documentation related to a tenant's timely payment of rent so that those hard hit by the financial crisis can rebuild their credit scores more quickly. Although the selection of winning bids will be conducted through an auction and based solely on the highest bid offered, only those investors that meet the high standards built into the qualification process will be permitted to bid on the Enterprises' portfolios.

Second, effective operating guidelines and compliance systems will be a part of the contractual agreement between the Enterprises and the investors. We are mindful that this is a transaction between a private seller and private investors, not a government program. Nevertheless, it is in the interest of the Enterprises, FHFA and the Administration that properties be well maintained and have a stabilizing effect on surrounding properties and communities.

Finally, certain usage restrictions, including limiting the sale of properties over the first few years of the investment, will create the right controls to ensure buyers invest and manage the properties for the long term and help attract a more stable base of investor capital.

Ultimately, we hope that if this pilot is successful, it can serve as a model for private market participants. While Fannie Mae and Freddie Mac own approximately 200,000 distressed loans, other financial institutions own over 400,000 nonperforming mortgages. A number of private sector firms are considering, and in some cases executing, pilots of their own. Responding to this demonstrated interest, the Federal Reserve Board issued clarifying guidance on effective policies and risk management processes for its regulated institutions and determined that prudently executed rental initiatives by covered financial institutions could receive favorable Community Reinvestment Act consideration.

Investors from across the country are actively pooling capital as a sign of increased demand for this business model. And lenders are beginning to develop products to provide investors with the necessary financing to invest in this space. We have heard anecdotally that the private sector is looking to Fannie Mae's initial pilot as a model, in the same way that servicers relied on HAMP when developing their own proprietary loan modifications. We hope that many of the same investor standards and usage restrictions will be replicated so that communities are properly protected, tenants are effectively served, and investors are appropriately rewarded for doing the right thing.

I would also be remiss if I did not note that I am particularly encouraged to hear that certain financial institutions are beginning to explore how deed-for-lease, deed-in-lieu and short sale programs, as well as nonperforming loan sales, can be aligned with the REO Initiative. Treasury's Home Affordable Foreclosure Alternative Program, or HAFA, set a new standard for short sale and deed-in-lieu execution by promoting pre-approved short sale transactions, requiring that borrowers with a genuine hardship be released from liability for the remaining mortgage debt upon sale, and establishing a reasonable industry standard for payments to extinguish junior liens. Most recently, the FHFA has also provided leadership in this area by directing the Enterprises to develop enhanced and aligned strategies for facilitating foreclosure alternatives. This includes the requirement that mortgage servicers review and respond to requests for short sales within 30 calendar days from receipt of a short sale offer. These foreclosure alternatives are an important complement to a scattered site single family rental business, as the leased or vacant properties that result from these actions can be purchased by investors as well as by homebuyers.

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In closing, I want to emphasize that the problems that this REO Initiative seeks to help mitigate are of historic proportion. They didn't occur overnight, and they won't be fixed overnight. This is why the REO Initiative is not a silver bullet. Rather, it is an important component of our overall strategy to help communities by preventing avoidable foreclosure, expanding access to refinancing, and supporting areas hardest hit by this crisis. I look forward to continuing to work with all of you on assessing the merits of these pilot programs, and more broadly, stabilizing and reforming the nation's housing market.

Thank you.